

Afghanistan Institute for Civil Society (AICS)

**Finance**

**Policy and Procedures Manual**

**Compiled by:**

Caroline Takawira and Maxwell Saungweme

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# **1: Introduction**

## About Afghanistan Institute for Civil Society[[1]](#footnote-1)

{Remove this and put background of your organization}

The Afghanistan Institute for Civil Society (AICS) is a concept that has been incubating for several years amongst Afghanistan’s civil society community, following the 2007 Enabling Environment conference convened by the Government of the Islamic Republic of Afghanistan and the Aga Khan Development Network, in partnership with the World Bank, the United Nations Development Program and the Asia Development Bank. One of the key recommendations from the conference was to establish independent certification bodies for civil society organizations (CSOs) that are recognized by Government, the private sector, donor agencies and civil society. The AICS establishment program was launched by AKF-A in January 2014 through a partnership between AKF and Counterpart International under a wider USAID funded Afghanistan Civic Engagement Program (ACEP) with the long-term goal of enabling CSOs to realize their potential in support of the development of Afghanistan. Behind this initiative are key CSO networks, civil society professionals, and representatives from national and international CSOs with an interest in Afghanistan.

**Mandate of AICS**

The mandate of AICS is to support a credible and competent civil society sector in Afghanistan by linking CSOs, donors, government and capacity building services through culturally appropriate certification schemes. The Institute will encourage the growth of a vibrant civil society, promoting pluralism and participatory, non-discriminatory development in Afghanistan.

**Objectives of AICS**

* Raise credibility of the civil society sector by certifying local organizations against locally defined and internationally recognized standards;
* Systematize capacity building efforts of local organizations by coordinating initiatives against measurable performance indicators;
* Strengthen the role of civil society in Afghanistan’s development through collective efforts of policy dialogue and active engagement with government, donors, the private sector and the broader civil society sector; and
* Provide a channel for resources for civil society by strengthening philanthropic and corporate social responsibility efforts.

**AICS’s Certification Program:**

AICS’ certification program is the organization’s flagship program, which raises the effectiveness and credibility of the civil society sector by certifying CSOs against locally defined and internationally recognized standards. The certification program enables CSOs to align their policies, processes, structure, programs and activities in accordance with the international best practices, contributing to the growth of a competent, transparent and effective civil society sector.

The CSOs’ performance is assessed against five broad sets of parameters as follow:

* Internal Governance and Strategic Planning;
* Project Management and Program Delivery;
* Financial Management;
* External Relations, Communications and Outreach; and
* Human Resources

This reference manual, is one of several generic manuals developed with support of AICS to aid CSO’s under the certification program to adapt and adopt, and customize these manuals and internalize them as part of their policies. Apart from this manual, other generic reference manuals developed to support CSOs in this regard include: **Monitoring and Evaluation Policy Reference Manual; Procurement Management Policy Reference Manual; Project Management Policy Reference Manual; Human Resources Policy Reference Manual; External Communications and Advocacy Policy Reference Manual; and CSO Governance Handbook**.

## Why this policy reference manual?

Recent analysis of strengths of CSOs done through AICS’s Certification Program, revealed that while CSOs under its program had financial management systems and policies in place some were struggling in developing and institutionalizing sound financial management practices and policies.

Thus, this manual is informed by the foregoing issues and the realization that for CSOs to succeed they need a framework and policy for best practices in financial management for the organizations and that guide teams, regardless of size, to run efficient and robust financial systems that lead to efficient use of resources, greater accountability and financial sustainability.

##

## Copyright

This generic policy reference manual is offered to Afghan CSO’s as a public good. CSOs under the AICS certification program and beyond are free to copy, adapt, customize and adopt this manual for their own organization in a manner they deem appropriate. CSOs that develop their policies out of this reference manual, must take this just as a guide and template. What is important is for the CSOs to develop out of this reference manual, policy documents that apply to their organization’s mandate and size and take ownership of the policy manual they develop out of this and internalize and operationalize the same.

##

## Purpose of this policy reference manual

This document is a general policy for {Name of CSO} regarding financial. This policy document sets out the framework for financial system for {Name of CSO}. It sets out the general principles, guidelines and protocols regarding financial management {Name of CSO} has committed to follow. In addition to this policy documents {Name of CSO} will have other practical guidelines that adhere to the policy. A number of processes, templates and tools have been included as Annexes to this policy document.

The financial management policy and other guidelines will adhere to definitions, norms, and best practices in financial management.

This policy reference manuals covers nine chapters as follows:

* General guiding principles;
* Cash and treasury management;
* Expenditure control management;
* Fixed assets;
* Grants and sub-grantee management;
* Budget control;
* Chart of accounts and operating software;
* Financial reporting; and
* Audit framework

# **2: CSO Financial System**

## 2.1 CSO’s Financial System

The CSO’s financial system encompasses all the personnel, resources, systems and activities that work together to carry out in an effective manner the financial and accounting functions of the organization. This manual seeks to streamline the functions of all the elements within this system to ensure that all the activities of the {Insert Name of CSO} are carried out in a systematic manner so as to safeguard and add value to assets as well as facilitate and enhance financial reporting.

The implementation of sound financial and accounting systems is therefore designed in such a way as to ensure that:

* + 1. All transactions are executed only upon proper approval and authorization;
		2. Only valid transactions are recorded accurately to permit preparation of financial statements that conform to generally accepted international accounting standards, and
		3. All assets are safeguarded in a healthy control environment.

## Purpose of this Policy Manual

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* + 1. The key purpose of designing this accounting policies and procedures manual is to provide guidelines to all staff at {Insert Name of CSO}, particularly the Finance and Accounting staff for the orderly execution of their respective responsibilities for the purpose of preparing the organization’s financial statements.
		2. These guidelines provide sets of operating and reporting financial standards and practices which comply with internationally accepted accounting standard.
		3. The manual aims to set out the basic framework of systems that will provide adequate levels of internal controls including budgetary control.
		4. The manual also aims at ensuring and promoting the principles of accountability and transparency generally referred to as good corporate governance code.

##

## 2.3 Scope of the Manual

This manual is intended to cover all aspects of the control environment of the financial system of {Insert Name of CSO}. It seeks touches on all areas of the system that instill order, direction and focus for efficient and effective performance at all levels of management.

The first chapter covers the background of {Insert Name of CSO}. The second chapter introduces the entire scope of the policy, outlining its purpose and objectives, as well as emphasize the necessity for updates and revision.

Chapter three sets forth the guiding principles, detailing the relevant concepts and conventions of the financial system.

Chapters four through nine sets out the policies and procedures framework for all aspects of the system. They establish points of reference for all the areas of the system consisting of cash and treasury management, expenditure control management, property and equipment, procurement and inventory management, payroll management, grants and sub grantee management, chart of accounts and operating software, budgeting and budgetary control, financial reporting and audit framework.

## 4.4 Updates and revision

* + 1. This is a living manual which will continuously be adapted and aligned to the environment in which the {Insert Name of CSO} operates. The manual shall therefore be revised annually with the approval of the Executive Director on advice from the Finance department and the endorsement of the Board of Directors.
		2. Suggestions and ideas on how the manual could be improved should be forwarded to the Head of Finance who would liaise with the Executive Director of {Insert Name of CSO} to effect the necessary identified changes for the endorsement of the Board of Directors.

# **3: General Guiding principles**

## 3.1 Accounting method

It is the policy of {Insert Name of CSO} to apply the accrual basis of accounting for the entity wide financial statements during the fiscal years. {Insert Name of CSO} would adopt the cash basis for specific project reports depending on donor requirements. This basis recognizes income when earned and expenses when incurred.

## 3.2 Revenue recognition

* + 1. It is the policy of {Insert Name of CSO} that grants are recognized as revenue upon receipt of the funds into CSO’s Bank account or upon fulfillment of the requirements agreed on in writing with each Donor Agency.
		2. Grants represent support with donor-imposed conditions and could be restricted or unrestricted. Unrestricted grants are received in support of agreed activities and development agenda and for general administration.
		3. Restricted grants are received in support of specified projects or activities mutually agreed upon between the CSO and Donor Agency

## 3.3 Matching Principle

The matching principle states that revenue is reported when earned and expenses are reported as incurred and should be matched against revenue, even if no cash outflow has occurred. This is the rationale for the accrual basis of accounting.

## 3.4 Prudence

1. Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.
2. The prudence concept states that revenue and income are not anticipated but are recognized by inclusion in the income statements only when realized in the form of cash or other assets or when the ultimate cash realization can be assessed with a reasonable degree of certainty.
3. All known liabilities are provided for whether their amounts are known with certainty or are a best estimate in the light of the information available.
4. Where the matching concept is inconsistent with the prudence concept, the latter would prevail.

## 3.5 Accrual Principle

It is the policy of {Insert Name of CSO} to accrue revenue and expenditure at year-end to reflect unrecorded transactions that affect the year then ended. In order to meet the requirement of Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) the {Insert Name of CSO}’s entity wide financial statements shall be prepared on the accrual basis. This is to ensure that revenue and cost are;

1. Recognized when earned or incurred, not necessarily when money is received or paid)
2. matched with each other so far as their relationship can be established or justifiably estimated, and
3. Dealt with in the income statement for the period to which they relate.

## 3.6 Historical cost principle

* + 1. The financial statements of {Insert Name of CSO} would be prepared under the historical cost convention and in accordance with GAAP and IFRS.
		2. Historical cost implies that the carrying value of assets is based on their purchase price. Where the historical cost convention is departed from, this should be stated in the accounting policies, specifying the nature of departure.
		3. However, grants in kind received by {Insert Name of CSO} such as fixed assets or services received from donors should be recorded at the fair values of the asset on the date of the transaction or actual fees paid by donors for such services, respectively.

## 3.7 Going Concern

* + 1. The financial statements shall be prepared on the assumption that {Insert Name of CSO} is a going concern and would continue in operation into the foreseeable future.
		2. It is assumed that the organization has neither the intention nor the need to liquidate or curtail materially the scale of its activities unless there is an intention to close the entity.
		3. If the intention to close the organization exists, the financial statements may have to be prepared on different basis and, if so, the basis used shall be disclosed.

##  3.8 Consistency

The consistency concept explains the fact that there shall be consistency in the methods and bases for the treatment of similar accounting variables:

* + 1. Within each accounting period; and
		2. From one accounting period to the other.

## 3.9 Fair value principle

* + 1. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties.
		2. Prevailing market prices are also used to determine fair value.

## 3.10 Disclosure principle

This requires the presentation of sufficient information to permit the reader to reach an informed understanding of the financial statements.

##

## 3.11 Accounting policies

* + 1. Accounting policies are the specific basis judged by {Insert Name of CSO} to be most appropriate to its circumstances and adopted for the purposes of preparing financial statements.
		2. Accounting policies applied would be based on GAAP. In the absence of an GAAP that specifically applies to a transaction, other event or condition, management shall use applicable IFRS in developing and applying an accounting policy that results in information that is reliable and relevant to the decision- making needs of users, in that the financial statements:
			1. represent faithfully the financial position, financial performance and cash flows of the entity;
			2. reflect the economic substance of transactions, other events and conditions and not merely the legal form;
			3. are free from bias;
			4. are prudent; and
			5. Complete in all material respects.

# **4: Cash and Treasury Management**

## 4.1 Selecting CSO bank

{Insert Name of CSO} operates both local and foreign bank accounts. It is the policy of {Insert Name of CSO} to consider the following in selecting a bank:

* + 1. Good local and international reputation and management.
		2. Widespread bank Network in the country.
		3. Adequate links with correspondent banks to facilitate transfer of funds.
		4. Satisfactory rating according to an independent agency.
		5. Quality of services (professional behavior, internet banking, sms banking, etc.), checks and payment facilities.
		6. Competitive COT charges.
		7. Competitive interest charges.
		8. Competitive interest on deposits.

## 4.2 Authorized signatories

* + 1. It is the policy of {Insert Name of CSO} to have two authorizing signatories for all payments; Category A and Category B signatories for this purpose.
		2. Category A shall denote transaction approving signatory from the Administration Department; in this case the Executive Director and in their absence it’s the Deputy.
		3. Category B shall denote financial authorizing signatory from the Finance Department. In this case the Head of Finance and in their absence, their deputy.
		4. Limits on each authorizing signatory as per the approval matrix shall be strictly adhered to.
		5. Whenever the situation arises that an officer is not available to endorse a payment, designated officers may be authorized to endorse payments, provided the Executive Director shall approve such an arrangement by a letter to the bank.
		6. No officer shall issue and sign a payment document such as a check in a situation where he is the direct beneficiary. In such circumstances the payment must always be signed by any other senior officer authorized to do so.

## 4.3 Managing bank accounts

* + 1. It is the policy of {Insert Name of CSO} to operate US Dollar and Afghani bank accounts in accordance with part 4.1 of this manual.
		2. The decision to open or close any bank account shall be requested the Head of Finance, authorized by the Executive Director and approved by the Board. The Head of Finance shall also maintain a log of all bank accounts opened by {Insert Name of CSO}.
		3. All the bank accounts shall be reconciled monthly by the Accountant or his delegate, reviewed and approved by the Head of Finance of {Insert Name of CSO}.
		4. Bank reconciliations should be prepared and reviewed within 10 working days after the end of the month
		5. No {Insert Name of CSO} representatives are allowed or authorized to secure loans, overdrafts, nor to incur deficits on {Insert Name of CSO} bank accounts.
		6. {Insert Name of CSO} bank accounts are specifically intended for official {Insert Name of CSO} transactions and should not be used for deposit or payment of personal items.
		7. To reduce the impact of devaluation of the local currency, {Insert Name of CSO} will keep funds in hard currency accounts and convert to local currency only when needed to be spent in local currency.
		8. Available funds will be kept in interest bearing accounts, if possible.
		9. If the funds are to remain unspent for a reasonable period of time, {Insert Name of CSO} will consider investing such funds in term deposits or similar rate instruments.
		10. Control of Bank Checks:
			1. Unused Checks books shall be safeguarded in a safe or otherwise under lock and key by the Head of Finance and a register shall be maintained to record issues.
			2. All checks must be signed for by the receiving officer.
			3. The Head of Finance shall check all new checks books to ensure that all check leaves are intact when received from the banks.
			4. All check books and leaves must be issued in numerical order
			5. Checks shall be drawn only after the voucher and the supporting documents have been properly prepared by the Accountant and duly approved as per the approval matrix
			6. Signed check that have not been distributed will be safeguarded under lock and key.
			7. Under no circumstances will blank check be signed
			8. Voided Checks:
				- It is the policy of {Insert Name of CSO} to maintain voided check log and document every check that has been voided regardless of the reason.
				- If voided check are physically available, they will be stamped “VOID” and filed with the canceled check for that month or stapled to the check book counterfoil.
			9. Outstanding Checks (Over three months old)
* It is the policy of {Insert Name of CSO} to call or write to the payee and inquire whether check was received or not.
* If the check is lost {Insert Name of CSO} will issue an immediate stop payment and consider issuing a replacement check upon verification by the bank that the check has not been cashed.
* If the check has been cashed the {Insert Name of CSO} shall initiate investigation to probe the matter to the bottom and take immediate correcting control measures to prevent recurrence.

## 4.4 Bank Reconciliation statements

* + 1. It is the policy of CSO to have bank reconciliation statements prepared monthly.
		2. Bank reconciliation statements will be prepared by the Accountant or his assistant.
		3. The completed bank reconciliation statements and documentation of voided checks shall be reviewed by the Head of Finance.
		4. The reconciled statements shall be approved by the Executive Director.

## 4.5 Guidelines for preparing bank reconciliation statements

* + 1. Bank reconciliation statements shall be prepared within 10 working days after the end of the month.
		2. The ending date of the bank ledger and the bank statement should be the same.
		3. The bank name, account number, and currency should be clearly indicated.
		4. Ideally, the bank reconciliation should be prepared by someone who does not authorize disbursements.
		5. The Head of Finance should review and endorse the reconciliation. The Executive Director will approve the reconciliation statement.
		6. The bank reconciliation should include a copy of the balance per the accounting records (the ledger balance) and a copy of the bank statement when it is presented to the Head of Finance for review and endorsement.
		7. All checks not cashed after three months (90 days) from the date of issue should be investigated by the Head of Finance. With the consent of the Head of Finance, stale checks should be written off immediately they become invalid.
		8. Any unexplained difference between the bank statement and the accounting records should be promptly investigated by the Head of Finance with the express approval of the Executive Director of {Insert Name of CSO}.
		9. Where the reconciling item requires an adjustment to the accounting records, a journal voucher should be used, and the reference for the subsequent adjustment should be noted on the reconciliation.
		10. Where the bank has made an error, documentation should be obtained from the bank giving the explanation and the adjusting entry made. Copies of this notice should be attached to the bank reconciliation.
		11. The reconciliation must contain complete descriptions of the reconciling items:
			1. Copy of the General Ledger page showing the cash book balance;
			2. Complete list of outstanding checks, including dates;
			3. Copy of the summary of deposits and record of all transfers;
			4. The original bank statements;
			5. Originals of all bank statement enclosures, i.e. debit and credit memos and advices, transfers advices, etc.; and
			6. Any other documentations and working papers
		12. Bank statements covering a financial year should be filed together with the bank reconciliation statement.

## 4.6 Withdrawal of cash from the bank

* + 1. The Cash Withdrawal Form is to be filled up and signed by the staff handling cash.
		2. The cash balance available and the estimated expenses would need to be computed.

* + 1. The authorized persons must verify the requirement before signing the check for withdrawal of cash.
		2. The signature of the person presenting the check and receiving the cash should be attested on the back side of the check by one of the authorized signatories.
		3. A Cash Receipt (Contra) voucher to be prepared and accounted for by the accountant on the same day.
		4. The Cash Account (Manual) to be updated for receipt of the Cash

## 4.7 Petty cash management

* + 1. It is the policy of {Insert Name of CSO} to operate an imprest system that shall be under the responsibility of the Accountant.
		2. It is the policy that the amount of cash to be held in the office be reduced to the barest minimum in order to reduce the risk of fraud or theft.
		3. The cash float to be held should be determined on the basis of the daily cash requirements at {Insert Name of CSO}.
		4. The cash float for the time being shall be XXX (to be determined by the CSO) for United States Dollar operations and xxxx (to be determined by the CSO) Afghani operations.
		5. In any event, the cash float shall not be exceeded without the express written authority of the Executive Director of {Insert Name of CSO}.
		6. The cash float shall not be reimbursement until:
			1. The balance falls to 15 percent of its total.
			2. A reimbursement request and a voucher with the attached valid bills, invoices, receipts and the summary account of expenditure have been submitted to the Accountant.
			3. The total expenditure has been checked and approved per the approval matrix.
			4. Reimbursement shall not exceed total vouched expenditure per the summary sheet.
		7. All individual petty cash vouchers shall be fully attached with all the source documents creating it and must be properly checked and approved before recording it into the accounting system.
		8. Any claimant of petty cash shall endorse the relevant section of the voucher to confirm receipt.
		9. Petty cash should be used only for small payments and in cases of larger payments where either bank facilities are inaccessible or inadequate or the payee will not accept a check; the main cash book shall be used in consonance with this policy.
		10. No single claim shall exceed XXXX (To be determined by the CSO) Afghani.
		11. Cash receipts should only be deposited into petty cash if the amount does not exceed the individual petty cash transaction limit and the established petty cash limit is not surpassed.
		12. The petty cash box should be locked and stored securely when not in use. Only designated custodians of the petty cash should have access to it. At all times, the petty cash box should be kept in a safe.
		13. Petty cash should be counted regularly. On the last day of the month, petty cash must be counted so that expenses can be reported within the month they occurred.
		14. Weekly cash counts will be done by the Head of Finance while surprise cash counts will be done by the Executive Director (At least once every quarter)
		15. Certificate of Cash Balance must be issued after the cash count. See appendix 6.

## 4.8 Receipts

* + 1. Receipts by the CSO consist mainly of local checks and direct transfers from the Donor Agencies’ bank accounts into the CSO’s bank account.
		2. All funds received shall be receipted and banked daily.
		3. It is the policy of CSO to list all checks and other inward remittances on a Daily Cash/Checks Receipts Register.
		4. The register with the remittances and supporting documents should be passed to the Accountant who will sign both copies as evidence of receipt.
		5. On receipt of the mail or of any amounts paid into the accounts office, the Accountant shall take the following actions:
1. Endorse checks and other negotiable documents with the CSO’s name and bank account.
2. Ensure that the name, details and date have been entered correctly. Postdated checks and checks which have different amounts entered in words and figures will be referred to drawer for amendments.
3. Issue a formal receipt.
4. Prepare bank pay in slip in triplicate. A suitably designed bank pay in slip books will enable the CSO process all receipts including direct transfers using the bank stamped second copy of the pay in slip. The third copy will remain in the deposit book.
5. Retain any credit transfer advices on temporary files until they are confirmed by the bank.
6. The Accountant shall input transactions into batches in the cash receipts book and send batch input summaries to the Head of Finance for verification
7. Each cash receipt form will be numbered sequentially, completed in duplicate and contained within a bound receipt book:
* The top copy shall be handed or dispatched to the payer.
* The second copy shall remain in the receipt book. If for any reason a receipt is cancelled or not usable, the original must be firmly fixed to the receipt book.
* Unused receipt books shall be held under lock and key by the Head of Finance who will be responsible for issuing them to the Accountant.
1. All receipts issued shall be checked against deposits by the Accountant for completeness of banking of cash receipts.
2. Direct credit transfers to the {Insert Name of CSO}’s bank accounts should be recorded from the bank statement.
	* 1. It is the policy of {Insert Name of CSO} to bank all cash and checks receipts intact.
		2. The daily record and receipted bank deposit slips shall be checked by the accountant to postings into the cash books and filed in a chronological order.
		3. All donor receipts shall be authorized by the Head of Finance and approved by the Executive Director before posting by the Accountant.

## 4.9 Investment management

* + 1. It is the policy of {Insert Name of CSO} to adopt sound investment management principles and practices that seek to ensure that the financial assets of the organization are prudently invested in risk free securities to bring optimum returns to enhance their values at any point in time.
		2. Realistic and scientific assessment of the financial inflows and commitments should be carefully employed to project the net cash flows from the short to the medium term to prevent any possible shortage of funds that results to operational inefficiencies.

##  Prepayments

Prepaid Insurance, Rent, Rates and other utilities shall be classified under receivables. All expired portions of the amount pre-paid shall be expensed by passing a Journal Voucher to the appropriate account. The unexpired portion shall be carried to the Statement of Financial Position and classified under receivables.

##  Foreign exchange exposure management

* + 1. It is the policy of {Insert Name of CSO} that significant local currency balances that have no immediate use shall be deposited in stable hard currency accounts to prevent possible exchange losses.
		2. Assets of the {Insert Name of CSO} should not be invested on speculative grounds. As a policy {Insert Name of CSO} shall not engage in hedging and foreign exchange speculative practices of any kind?
		3. Prompt payment of liabilities will generally keep transaction exposure to a minimum.
		4. Exposure in excess of US$10,000 in a currency other than the US$ must be reviewed by the Head of Finance.
		5. Translation exposures are defined as currency mismatches of balance sheet assets and liabilities.
		6. {Insert Name of CSO} will not actively review this mismatch. Efforts to contain and minimize transaction exposure will be adequate to counter any potential translation exposure

##  Cashflow statement

The following definitions shall apply in the preparation of the statement of cash flows of {Insert Name of CSO} in their annual financial reports:

* + 1. **Cash and cash equivalents** shall comprise cash on hand, current bank balances and short-term deposits that can be converted to cash within two working days.
		2. **Operating activities** shall include all transactions and other events that are not investing or financing activities. They shall include but not limited to the following:
			1. Cash receipts from levies and fines;
			2. Cash receipts from charges for goods and services provided by the {Insert Name of CSO};
			3. Cash receipts from grants or transfers;
			4. Cash receipts from fees and other revenue;
			5. Cash payments to other entities to finance their operations (not including loans);
			6. Cash payments to suppliers for goods and services;
			7. Cash payments to and on behalf of employees;
			8. Cash receipts from and payments to an insurance entity for premiums and claims, annuities and other policy benefits;
			9. Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
			10. Cash receipts and payments from contracts held
		3. **Investing activities** shall consist of those activities relating to the acquisition, holding, and disposal of fixed assets and investments. Investments shall include securities not falling within the definition of cash.
			1. Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;
			2. Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
			3. Cash advances and loans made to parties other than advances and loans made by a public financial institution where applicable;
			4. Cash receipts from the repayment of advances and loans made to parties other than advances and loans of a public financial institution where applicable;
		4. Financing activities shall consist of those activities that result in changes to the size and composition of {Insert Name of CSO}’s capital structure. This includes both equity and debt not falling within the definition of cash.
		5. Due to the nature and mandate of {Insert Name of CSO}, financing activities would rarely be used or applied in the operations of the organization. Should there be a change by management at any point in time; the Board would notify Finance for the necessary treatment and disclosure.
		6. Disclosure Requirements:

To ensure compliance with GAAP or IFRS, management would ensure cash flow statements have been presented as an integral part of the entity's financial statements for the period. Management would use the indirect method for the preparation of cash flow statement

The cash flow statement would be classified under the following headings:

* + - 1. Operating activities;
			2. Investing activities; and
			3. Financing activities

#  **5: Expenditure Control Management**

This section sets out the procedures for all forms of expenditure by the {Insert Name of CSO} for the purpose of acquiring fixed assets, procuring items of stock, incurring an expense or engaging in a contract for the benefit of the {Insert Name of CSO} either in the short or the long term.

## 5.1 General Expenditure Control Policies and Procedures

It is the policy of {Insert Name of CSO} to strictly follow the following procedures for all forms of expenditure.

* + 1. All procurements shall follow the procurement policies and procedures of {Insert Name of CSO}.
		2. A Requisition Form shall be raised for all requests for funds for any expenditure whether capital or revenue.
		3. All Requisition Forms shall be duly requested by a specific responsible official in a needy department, authorized by the head of that department and approved by the Head of Finance after checking all valid bills, invoices, or source documents that shall be attached to the request. See Appendix 2 for sample Requisition Form.
		4. A Payment Voucher shall be raised for all approved Requisition Forms referred to under part (c) above.
		5. The Payment Voucher shall be duly checked by the Accountant, authorized by the Head of Finance and approved by the Executive Director after examining all the attachments and assuring themselves of their relevance, quality, validity, accuracy, completeness, and whether the items in question have been budgeted for and funds are available. See Appendix 3 and 4 for sample payment vouchers.
		6. If vouchers submitted for payment are not approved, they will not be processed and will be returned to the relevant staff for rechecking and approval.
		7. All payment vouchers will possess the following qualities:
			1. Description of the transaction.
			2. Amount of voucher.
			3. Name of Payee.
			4. Appropriate Account Code.
			5. Appropriate Program/Project Number.
			6. Appropriate Donor code.

## 5.2 Payment by checks

* + 1. Once payment vouchers have been approved, a check will be prepared.
		2. All check payments must be approved by at least 2 signatories.
		3. All checks payments will comply with all the control procedures outlined under part 4.1 above.
		4. The check’s number will be entered in the appropriate space on the payment voucher form.
		5. All checks payments shall comply with part 3.3(k) of this manual on checks under Managing Bank Accounts.
		6. **Paid Stamp**

It is the policy of {Insert Name of CSO} to stamp on each paid invoice with the word “PAID” upon payment.

## 5.3 Payment via E-banking

* + 1. All E-banking Payments will comply with all the control procedures outlined under part 4.1 above
		2. the Accountant shall process a payment through the E banking platform clearly entering the following details:
			1. Beneficiary Account Name.
			2. Beneficiary Account Number.
			3. Swift Code.
			4. Correspondent Bank Details.
			5. The Amount to be transferred and currency.
		3. The appropriate signatories to the bank account will authorize the payment on the E-banking platform.
		4. Once a payment has been authorized the accountant will print a proof of payment in duplicate. One for the file and the other to be sent to the service provider.

## 5.4 Payment by credit card

It is the policy of {Insert Name of CSO} to allow payments by credit card. The Finance Head shall be responsible for managing the credit card. The following procedures shall be followed in such cases:

* + 1. All Payments by credit card will comply with all the control procedures outlined under part 4.1 above
		2. The credit limit for all transactions by credit card shall be US $xxxx (based on size of CSO) or its equivalent.
		3. The credit card will be used only for purchase of flights and accommodation

## 5.5 Payment by cash

* + 1. Conventionally, cash payments are not encouraged except for minor payments which are catered for by petty cash.
		2. Where any major payment of more than US$ 500 is required to be made by cash in urgency, an open check shall instead be written in the name of the beneficiary.
		3. In cases where a group of people are to be paid in cash, it shall be the policy of {Insert Name of CSO} to write an open check in the name of the Accountant to effect such payment.
		4. In cases such as under part (c) above, there shall be attached to the payment voucher a detailed list of beneficiaries, the amount per beneficiary and signature acknowledging receipt of payment.
		5. All Payments by cash will comply with all the control procedures outlined under part 4.1 above

## 5.6 Expenditure Approval Matrix

For all amounts in excess of US$ 100,000.00 the approval of the Board of Directors would be required. Otherwise, all vouchers and checks must be approved by the Executive Director of {Insert Name of CSO}.

However, in the absence of the Executive Director, the matrix below could be adopted to facilitate operational effectiveness, provided the Executive director would endorse it when next available.

|  |  |  |
| --- | --- | --- |
| **Authorized by** | **Approved by** | **Approval****Limit** |
|  |  | (US$) |
| Executive Director | Board of Directors | **+100,000** |
| Management team | Executive Director | **20,001-100,000** |
| Head of Finance | Executive Director | **5,001-20,000** |
| Head of Finance | Management team | **+1-5,000** |

# **6: Fixed Assets**

## 6.1 General policy guidelines

* + 1. This section sets out procedures that seek to ensure that Fixed Assets of {Insert Name of CSO} are acquired, recorded, utilized, or disposed of within appropriate levels of authorization and approval. The main focus is to safeguard and account for assets.
		2. Fixed Assets shall include movable and immovable assets.
		3. Capitalization of Assets - It is the policy of {Insert Name of CSO} that all its fixed assets are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.
		4. It is the policy to expense assets in the period of purchase if these assets cost US$2,000.00 or less individually. Assets costing in excess of US$2,000.00 will be capitalized and depreciated in accordance with the organization’s depreciation policies.
		5. It is the policy of {Insert Name of CSO} to capitalize Repairs and improvements to real property and leasehold improvements if they cost in excess of US$1,000.00 individually.

|  |
| --- |
|  |

## 6.2 Acquisition

The CSO shall procure any fixed asset provided that:

* + 1. It complies with the Procurement Policy of {Insert Name of CSO}.
		2. It complies with section 4.1 of this manual.
		3. It falls within the ambit of the {Insert Name of CSO}’s eligible expenditure.
		4. It has been provided for in the Annual Budget.
		5. There is availability of funds for the purpose.
		6. The transaction has been approved by the Executive Director.
		7. It is the policy of {Insert Name of CSO} to register all acquired fixed assets in the name of {Insert Name of CSO}.
		8. It is the policy of {Insert Name of CSO} to ensure all fixed Assets comprehensively and inspect for roadworthiness on acquisition. Insurance and roadworthy (in the case of motor vehicles) certificates shall be obtained and securely kept by the {Insert Name of CSO}.
		9. It is the policy of {Insert Name of CSO} to assign all fixed assets with special identification numbers. They shall also be clearly labeled as {Insert Name of CSO}.

## 6.3 Recording

* + 1. All fixed assets acquired by name of {Insert Name of CSO} must be properly recorded in the Ledger Accounts with the approved valid vouchers duly attached.
		2. A Fixed Assets Register shall be maintained to keep track of all properties owned by name of {Insert Name of CSO}.
		3. The register shall have columns for the following:
			1. Date of acquisition.
			2. Name of the Asset.
			3. Accounting Code of the Asset.
			4. Identification number of the asset.
			5. Insurance certificate number of the Asset.
			6. Cost of the Asset.
			7. Depreciation rate.
			8. Accumulated depreciation.
			9. Depreciation charge for the year.
			10. Disposal costs for the year.
			11. Book value of the asset.
			12. Description or remarks column
		4. Assets shall be grouped into their various categories or classes in the Register

## 6.4 Custody

It is the policy of {Insert Name of CSO} to:

* + 1. Maintain and keep all of its assets in good physical condition at all times.
		2. Keep all of its assets at secure physical location.
		3. Distinctively identify all of its assets.
		4. Use its Assets only for the benefit of {Insert Name of CSO}.
		5. As much as possible make the assets available at all times for inspection by all authorized persons.
		6. Conduct physical asset counts on a quarterly basis

## 6.5 Depreciation of fixed assets

* + 1. It is the policy of {Insert Name of CSO} that depreciation of all of its fixed assets is calculated on a straight-line basis at rates estimated to write off the cost of each asset over the estimated term of its useful life.
		2. Fully depreciated fixed assets will remain on the organization’s statement of financial position until they are disposed of or otherwise deemed worthless.
		3. Assets shall be capitalized in accordance with the organization’s capitalization policy.
		4. It is the policy of {Insert Name of CSO} to apply the following rates of depreciation:

|  |  |
| --- | --- |
| i. Computers | 33.33 percent |
| ii. Furniture and Fittings | 20 percent |
| iii. Motor Vehicles | 25 percent |
| iv. Office Equipment | 20 percent |

e) It is the policy of {Insert Name of CSO} that a full year’s depreciation is charged in the year of acquisition. No depreciation is to be charged in the year of disposal.

## 6.7 Disposal

It is the policy of {Insert Name of CSO} not to dispose of any fixed assets of the organization unless they have:

* + 1. To be disposed of as scrap.
		2. Become too costly to maintain.
		3. Become obsolete.
		4. Fully depreciated.
		5. Been approved by the Executive Director in conformity with this policy.
		6. Ratified by the Board of Directors for assets with original purchase price in excess of $10,000.

## 6.8 Reporting

It is the policy of {Insert Name of CSO} that the presentation of fixed assets in the financial statement and its notes are in conformity with the IFRS. By these standards;

* + 1. The financial statements should disclose, for each class of property, plant and equipment recognized in the financial statements:
			1. The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;
			2. The depreciation methods used;
			3. The useful lives or the depreciation rates used;
			4. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
			5. A reconciliation of the carrying amount at the beginning and end of the period showing***:***
				- Additions;
				- Disposals;
				- Acquisitions through business combinations;
				- increases or decreases during the period resulting from revaluations and from impairment losses (if any) recognized or reversed directly in net assets/equity under the appropriate international or national accounting standard adopted;
				- Impairment losses (if any) recognized in the statement of financial performance during the period under the appropriate international or national accounting standard adopted;
				- Depreciation;
				- The net exchange differences arising on the translation of the financial statements of a foreign entity; and
				- Other movements.
		2. The financial statements should also disclose for each class of property, plant and equipment recognized in the financial statements:
			1. The existence and amounts of restrictions on title for property, plant and equipment pledged as securities for liabilities;
			2. The accounting policy for the estimated costs of restoring the site of items of property, plant and equipment;
			3. The amount of expenditures on account of property, plant and equipment in the course of construction; and
			4. The amount of commitments for the acquisition of property, plant and equipment.
		3. The selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information which allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose the depreciation allocated in a period and the accumulated depreciation at the end of that period.
		4. {Insert Name of CSO} would disclose the nature and effect of a change in an accounting estimate that has a material effect in the current period, or which is expected to have a material effect in subsequent periods, in accordance with IFRS. Such disclosure may arise from changes in estimates with respect to:
			1. residual values;
			2. the estimated costs of dismantling and removing items of property, plant or equipment and restoring the site;
			3. useful lives; and
			4. Depreciation method.
		5. When a class of property, plant and equipment is stated at revalued amounts the following would be disclosed:
			1. the basis used to revalue the assets within the class;
			2. the effective date of the revaluation;
			3. whether an independent valuer was involved;
			4. the nature of any indices used to determine replacement cost;
			5. the revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;
			6. the sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and
			7. The sum of all revaluation deficits for individual items of property, plant and equipment within that class.
		6. {Insert Name of CSO} would disclose information on impaired property, plant and equipment under the appropriate international or national accounting standard adopted in addition to the information required by paragraph 73(e) (iv) to (vi) of the Standard.
		7. Financial statement users of {Insert Name of CSO} also find the following information relevant to their needs to the extent applicable:
			1. The carrying amount of temporarily idle property, plant and equipment;
			2. The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
			3. The carrying amount of property, plant and equipment retired from active use and held for disposal; and
			4. When the benchmark treatment is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

# **7: Grants and Sub-guarantee Management**

##

## 7.1 Administration of grants:

* + 1. {Insert Name of CSO} receives funds from various donor/funding organizations to finance various activities.
		2. The donor/funder funds shall be administered in an economic, efficient and effective manner by the officers in charge of such projects.
		3. The donor/funder funds administrative process shall include timely feedback to the donors of details of projects funded by them.
		4. Donor/funder funds shall only be utilized in accordance with the provisions of the grant agreement.
		5. As part of the annual budget, grants shall be included in the annual estimates in the following manner:
			1. Donor/funder grants shall be budgeted for, committed in signed agreements and where they can be expected to be received during the year with a high degree of certainty, the Grants Manager / Head of Finance shall review all signed agreements to confirm the existence and the value of the grants included in the budget.
			2. In the event that an agreement is unsigned, or in a signed agreement with a high degree of uncertainty of receipts of grants, the Head of Finance will remove the related expenditure from the budget.

## 7.2 Mode of receiving grant

* + 1. The Funder/Donor transfers the Grant direct to the {Insert Name of CSO}’s Bank account
		2. The Funder/Donor issues a check in the name of the {Insert Name of CSO}.

## 7.3 Contributions Acknowledgement

* + 1. It is the policy of {Insert Name of CSO} to send letters or notes on {Insert Name of CSO}’s letterhead acknowledging all contributions, regardless of the amount.
		2. The letters will indicate the dollar amount contributed and the local currency equivalent, where necessary.

## 7.4 Grant Agreements

Ensuring compliance with terms and conditions of donor/grant financing agreements starts with ensuring that a donor/grant financing agreement fully complies with {Insert Name of CSO} financial policy and procedures.

* + 1. The Executive Director would be ultimately responsible for ensuring that the organization consents to and complies with all financing agreements with donors/funders.
		2. The grants committee (consisting of the legal expert, Head of Finance, and the Grants Manager) shall review the donor/funder procedures and advise the Executive Director on its acceptability.
		3. The Executive Director would upon receipt of the advice from the Grants Committee make a decision.
		4. The Executive Director shall authorize a Grant agreement only after due clearance by the Grants committee and evidence on this clearance retained on file as a control procedure and for audit purposes;
		5. Compliance:

All project coordinators/head of project management units shall ensure that all donor/funder funds are utilized according to the terms and conditions of the grant agreement. This shall include:

* + - Application of funds in accordance with the approved budget
		- Compliance with procurement procedures
		- Compliance with disbursement and payment procedures including claims and other retirement of funds
		- Compliance with reporting procedures for donors among others
		1. The Head of Finance shall review compliance of all projects and donor procedures and advice the Executive Director where exceptions are noted.

## 7.5 Sub guarantee management

{Insert Name of CSO} will provide the needed support for Sub-grantees.

* + 1. Financial management

Sub-grantees would adhere to the following guidelines:

* + - 1. Request for funding for sub-grantees shall be in accordance of the financing/grant agreement
			2. Implement disbursement operations in accordance with the grant agreement by ensuring that appropriate documentation is retained
			3. Produce monthly cash flow forecast for the three following months to ensure that the sub-grantee operations do not run short of cash disbursements. The monthly cash flow shall be authorized by the project officer
			4. Safeguards funds and other resources of the sub-grantee
			5. Operate special accounts in accordance with the requirements of opening bank accounts as detailed in the manual.
			6. Maintain cash book and provide timely report.
		1. Procurements

All procurement activities such as planning, preparation of standard bidding documents, procurements of goods and services would be handled by the {Insert Name of CSO} unless otherwise authorized.

* + 1. Monitoring and Evaluation Reports

Each Sub-grantee will be responsible for reporting on the project. The following minimum project monitoring, physical and financial reports will be produced by the Sub-grantee, unless otherwise specified in the sub-grant contract;

* + - 1. Quarterly Reports
				* Discussion of Project Progress
				* Physical monitorable indicators progress report against planned outputs
				* Financial results against approved budgets
				* Procurement progress reports against planned procurements
				* Outlook/prospects for the next quarter
			2. Annual Project Progress report

The Head of Programs would complete an annual substantive project progress report which will comprise the following;

* + - * + Discussion of project progress
				+ Physical monitorable indicators progress report against planned outputs
				+ Financial results against approved budgets (use of funds by project activities)
				+ Procurement progress reports against planned procurements
				+ Annual work plan schedule of the following financial year**;**
				+ The detailed work plan will be attached to the annual progress report
				+ The work schedule shall include the procurement plan

# **8: Budgeting and Budgetary Control**

## 8.1 Introduction

* + 1. Budgetary control is the practice of regularly comparing actual results against expected results.
		2. The most important method of budgetary control is variance analysis, which involves comparison of actual results achieved during a period with the budget.
		3. The difference between actual results and expected results are called variances and these are used to provide a guideline for control action by management.
		4. Effective budgetary control requires robust, reliable and relevant financial management reporting systems, which should be able to communicate the results of management action on a timely basis.

##

## 8.2 Responsibilities

1. The administration of budgetary control shall be the responsibility of the Executive Director.
2. However, the detailed work of communicating variance information and co- coordinating control efforts shall be the responsibility of the Head of Finance.
3. The Head of Finance shall be responsible for generating from the (xxx) accounting system monthly reports, analyzing between actual and budget to date, not later than 14 days after the end of the relevant month.
4. The Head of Finance shall receive comments from the Executive Director on the variances within 7 days of receiving the reports from the Head of Finance.
5. The Executive Director shall endorse appropriately agreed control action on the variances.
6. The Head of Finance shall ensure that approved control action is implemented within the agreed timeframe.

## 8.3 Budgets a tool for budgetary control

1. For the purpose of budgetary control, the annual master budget shall be prepared on a monthly /quarterly basis.
2. All operational overheads expenses shall be apportioned equally, unless particular items of expenditure are known with certainty for specific periods.
3. Direct operational expenses shall be apportioned between monthly and quarterly periods based on timing of each activity in accordance with the approved work plan.
4. Capital expenditure budget shall also be apportioned between monthly and quarterly periods based on the anticipated time of purchase of the asset.
5. Grants, donations, interest and sundry income shall be budgeted for the months in which they are expected to be received.

## 8.4 Computation of variances

1. Computation and reporting of variances shall be carried out in conjunction with the production of monthly management accounts
2. The reporting format for variances is similar to the budget preparation formats.
3. The variances shall be reported in the following manner
	1. Actual for the month – previous year
	2. Approved budget for the month – current year
	3. Actual for the month – current
	4. Variance amount (ii-iii)
	5. Variance percentage
	6. Cumulative approved budget – current year
	7. Cumulative actual – current year
	8. Cumulative actual – previous year
	9. To date variance amount (vi-vii)
	10. To date variance percentage

In order to ensure uniformity, presentation of periodic management accounts shall follow the annual financial statements reporting format.

**8.5 Investigation of variance**

1. All significant variances shall be investigated to enable remedial control measures to be implemented.
2. Recommended remedial measures which are agreed with the respective heads of departments shall be approved by the Executive Director and form part of the budgetary control process of {Insert Name of CSO}.

# **9: Chart of Accounts and Operating Software**

## 9.1 Chart of Accounts

* + 1. {Insert Name of CSO} shall maintain consistency of its financial reporting structure by utilizing a professionally developed chart of accounts structured alongside the accounting software.
		2. In the event that new accounts are required to be added to enhance financial reporting or meet specific donor requests, the Head of Finance would notify the Executive Director for approval on the additions/modification.
		3. Below is a diagrammatic representation of {Insert Name of CSO}’s Chart of Accounts that would be updated with additions and modifications whenever it becomes necessary to do

## 9.2 Implementation of chart of accounts

* + 1. Every three years the Head of Finance shall initiate a comprehensive review of the adequacy of the chart of accounts and appropriateness of its format
		2. The Head of Finance shall communicate any updates on the chart of accounts to the rest of the finance team
		3. They should also ensure that the approved budget appropriations are correctly processed and budget reports are produced to provide adequate information.

## 9.3 Computerized accounting software

* + 1. The Head of Finance in consultation with the Executive Director shall evaluate, recommend, purchase and implement a computerized accounting package, which is best suited for the {Insert Name of CSO}’s financial recording and reporting requirements.
		2. The accounting package shall:
			1. Be able to accommodate the coding system set out in the chart of accounts.
			2. Incorporate approved budget appropriations to produce activity based financial reports with variances.
			3. Be capable of processing periodic management accounts in the format prescribed by management.
			4. Produce annual financial statements in the format consistent with the IFRS.
			5. Be user friendly and have an effective on-line after sales support including post installation training.
			6. Operate on the network to facilitate information sharing.
			7. Have adequate data security and back up routines and a highly reliable audit trail and password access at different levels.
			8. Flexible reporting formats to enable {Insert Name of CSO} to generate various reports on an ad hoc basis and revise reporting formats to accommodate any changes including the following;
				- Multi-currency reporting.
				- Multi-user capability.
				- Efficient data entry system.
				- Automatic period end processing procedures where necessary.
				- Ability to import or export data (subject to password security) to popular spreadsheet and database programs.
				- Designed and supported by a reputable software company.
		3. The computerized accounting software shall at the very minimum consist of the following modules and subsidiary ledgers:
1. General ledger
2. Inventory
3. Accounts payable
4. Cashbook
5. Fixed asset module
6. Accounts receivable
7. Payroll module which can be integrated with the general ledger

## 9.4 Data Security and back up

Regular backups of the accounting system shall be made to ensure maximum security of the software and information contained therein.

Backup copies of the software shall be kept off-site by the Executive Director and Head of Finance on a weekly basis.

## 9.5 Objectives of the accounting system

The objectives of the accounting system are to:

1. Record the assets, liabilities, income and expenditure of {Insert Name of CSO} and the sub-grantees.
2. Provide information to management to assist them in running the institution’s activities on a day to day basis.
3. Assist the preparation of annual budgets.
4. Assist the Head of Finances in managing implementation of approved interventions within the approved appropriations under their control.
5. Facilitate treasury management.
6. Provide objective yardsticks for performance evaluation of business units, departments and employees.
7. Enable management to identify reasons for adverse variance to facilitate remedial measures.

## 9.6 Basic recording of books of accounts

* + 1. Each individual transaction shall be processed in a double entry accounting system through one of the following computerized modules:
			1. Accounts payable module;
			2. Cashbook module;
			3. General ledger module;
			4. Fixed asset module;
			5. Accounts receivable module.
		2. The general ledger is the principal book of account of the {Insert Name of CSO}. It is where all transactions are recorded either in detail or in summary totals.
		3. The general ledger contains accounts which show the totals of transactions that are recorded in detail in the subsidiary ledgers.
		4. All postings to the general ledger are made from journal vouchers. These are either standard journal vouchers, for items which occur regularly by month; or non-standard journal vouchers for items that are exceptional or of infrequent occurrence.
		5. Postings may also be carried out from totals derived from the computerized cash book module, accounts payable module and fixed asset register module.

# **10: Financial Reporting**

## 10.1 Common information in financial statements

The Head of Finance is responsible for the preparation of the annual financial statements. This must be reviewed by the Executive Director and approved by the Board of Directors.

A complete set of financial statements according to IFRS comprise:

1. A statement of financial position;
2. A statement of financial performance;
3. A statement of changes in net assets/equity;
4. A cash flow statement;
5. A statement of comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements;
6. Notes, comprising a summary of significant accounting policies and other explanatory notes; and
7. Format used.

The uniform formats for the preparation of the statements of financial performance, statements of financial position, cash flow and notes are set out in appendix 9 of this manual.

## 10.2 Monthly and annual reporting procedures

* + 1. Monthly Procedures and Timetable

The following procedures would be followed in the preparation of monthly reports:

1. The Head of Finance will use tools aimed at ensuring that monthly reports are circulated not later than 10th of the month following the end of the relevant month. A timetable would be circulated every month by the Head of Finance as required. When each step of the task is completed, the Head of Finance will mark a cross (x) in the column under the working day when it is achieved to enable him review progress and to take hastening action where necessary.
2. For each month a complete set of management information reports, which include the following listed below, are required by the 10th of the following month:
	* monthly management accounts;
	* budgetary variances;
	* Donors report; and
	* Notes and supporting schedules.
3. As far as the financial statements are concerned it is a standard requirement that these shall be completed by the tenth working day after each month end.
4. The Head of Finance shall issue a timetable each month showing the actual dates by which the various stages of work must be completed.
5. The timetable shall indicate the officers responsible for the task and list date of
* Completion of cashbook postings and bank reconciliations.
* Completion of subsidiary ledger postings and reconciliations
* The various standard journal vouchers to be prepared
* Completion of postings to the general ledger and extracting the preliminary trial balance
* Completion of final trial balance after review and necessary adjustments
* Completion of balance sheet and income statement
* Preparation of supporting schedules
* Receipts of variance analyses explanations
1. Against each item, the required completion date will be indicated in the column under the required working day.
2. The Head of Finance will circulate other guidance notes as they become necessary for the preparation of the monthly accounts and reports.
	* 1. End of Year Reporting
3. Prior to the end of the financial year, the Head of Finance will prepare instructions setting out the timetable for the submission of accounting returns and the names of the officers responsible for their completion.
4. The creditor’s ledger and accruals and prepayments register will be kept open until the end of the fifth week after the year end, to ensure that all relevant items are included as accurately as possible.
5. After those records are closed, any further adjustments will be made only on non-standard journal vouchers authorized by the Head of Finance.
6. The annual accounts must be completed within one month following the financial year. The audit report together with the management letter from the auditors and management responses shall then be made available to the Board of Directors within the first 3 months of the following year after the Executive Director’s approval.
	* 1. Year End Accounting Routines
			1. Most of the year end accounting routines would be the same as those performed each month. However, there are specific tasks to be completed at the end of year which include:
				+ the provisions for slow-moving or obsolete or deteriorated stock where applicable;
				+ the write-off of unusable or obsolete property, plant and equipment;
				+ the certification of cash in hand;
				+ the provision for bad or doubtful debts;
				+ the assessment of prepayments and accruals and
				+ certificates of bank balances and investment
			2. The Head of Finance will prepare an age analysis of all {Insert Name of CSO}’s sundry debtors. On the basis of this analysis, a provision will be made for any bad or doubtful sundry debts where applicable
			3. The Head of Finance will review the nominal ledger to identify those expenses which have been prepaid. Also, he will assess the nature and value of those accruals for which provisions will be made.
			4. All source documents during the first two months of the new financial year will be scrutinized carefully at the time of approval; any transactions relating to the previous year’s accounts will be marked clearly.
			5. Once the trial balance has been extracted correctly, the Head of Finance will prepare the statutory accounts in accordance with IFRS. They shall ensure that the statutory accounts are completed and are ready for audit by the {Insert Name of CSO}’s external auditors. In addition, they shall prepare a report to the Executive Director/Board which analyses and explains the results for the year.

## 10.3 Financial Control

{Insert Name of CSO} shall maintain the highest levels of financial control. In order to ensure the high levels of financial control, the finance department will conduct a self-review through the use of the following**:**

* + 1. Internal control questionnaire

The Head of Finance or his designate will ensure the finance regulations, policies and procedures detailed in this manual are operating effectively by performing self-audits twice a year as follows:

1. An internal control questionnaire shall be developed to provide a tool for self-auditing of the control and operating procedures defined in this manual;
2. Schedule officers shall ensure the checklists are completed by the 20th day following each half – year end;
3. The internal control questionnaire is a tool to ensure the institution or operation is in compliance with provisions in the manual. This helps to determine the training needs of employees;
4. The Head of Finance shall summarize the key outcome from the checklist and follow up the action necessary to ensure compliance.
	* 1. Balance Sheet Review
5. The Head of Finance or his designate shall conduct balance sheet reviews of the CSO.
6. The reconciliation folders will include the following:
	* Bank reconciliations;
	* Petty cash float count confirmation;
	* Accounts receivables;
	* Provisions for bad and doubtful debts;
	* Prepayments schedules;
	* Deposits/investments accounts;
	* Accounts payable; and
	* Accruals schedule.

Any follow up actions will be agreed after the review and agreed with the finance or schedule officer.

## 10.4 Specific Donor/Funder Reporting

* + 1. As mentioned in this manual, {Insert Name of CSO} has adopted accrual basis for the preparation of the entity wide financial statements. However, to enable {Insert Name of CSO} to comply with specific donor reporting guidelines, which are principally on cash basis, it would adopt cash basis for the preparation of all specific donor reports.

{Insert Name of CSO} will prepare and present the cash basis financial statements to include the following components:

1. A statement of cash receipts and payments which:
	* Recognizes all cash receipts, cash payments and cash balances; and
	* Separately identifies payments made by third parties on behalf of {Insert Name of CSO};
2. Accounting policies and explanatory notes; and
3. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments would be presented
	* 1. Information to be presented in the Statement of Cash Receipts and Payments.

The statement of cash receipts and payments should present the following amounts for the reporting period:

1. Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity’s operations;
2. Total cash payments of the entity showing separately a sub classification of total cash payments using a classification basis appropriate to the entity’s operations; and
3. Beginning and closing cash balances.

Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, would be reported on a gross basis.

# **11: Audit Framework**

## 11.1 Audit of grants

* + 1. At the end of the grant period a financial statement shall be prepared and submitted to the Funders/Donors based on the Funders/Donors Financial Statement format after an independent external audit.
		2. The {Insert Name of CSO}’s financial statements shall be audited annually by an independent external Auditor appointed by the {Insert Name of CSO}, approved by the Board.
		3. The appointed auditor shall examine the internal controls of the {Insert Name of CSO} to assure themselves of the accuracy and reliability of the records in safeguarding the assets of the {Insert Name of CSO}.
		4. Following this examination the Auditor shall issue a report that shall draw the attention of {Insert Name of CSO} to the weakness, if any, that have come to their notice. The auditor shall also make recommendations as to how to rectify the weakness detected.
		5. The main objective of the audit shall be to provide an independent opinion as to whether or not the {Insert Name of CSO}’s financial statements show a true and fair view of the state of affairs of the {Insert Name of CSO}.
		6. It shall be the duty of the Accountant to prepare the financial statement necessary for audit.
		7. The Accountant shall also be responsible for making available all documents and information requested by the Auditor for the purpose of the Audit.
		8. The {Insert Name of CSO} shall ensure that the auditors audit the {Insert Name of CSO} accounts at the end of each fiscal year.
		9. The auditors shall be required to submit to the {Insert Name of CSO} certified true copies of the following audited reports:
			- Audited reports for all grants received in US Dollars;
			- Consolidated audited report for all grants in Afghani;
			- Consolidated audited report for all grants in US Dollars;
			- Audit report of the financial statement as a whole; and
			- Management letter.
		10. The signed audited accounts shall be attached with management’s responses to all issues raised in the letter of weakness before any report could be submitted to interested parties.
		11. After the audit of grants, the CSO shall keep all documents pertaining to all audited grants for at least 8 years.

# **Annexes**

## Annex 1: Bank Reconciliation Statement

|  |  |
| --- | --- |
| **CSO** |  |
| BANK RECONCILIATION STATEMENT FOR THE MONTH ENDING………………………… |
| Bank Account Name: |  |
| Bank Account No.: |  |
| Bank Account Currency: |  |
| General Ledger Ref. No.: |  |
|  | $ |
| Balance per Cash Book | XXX |
| Add: Unpresented (Outstanding) Checks | XX |
|  | **XXXXX** |
| Deduct: Uncredited Checks | XX |
| Adjusted Cash Book Balance | **XXXX** |
| Add: Credits (Deposits) in Bank not yet in Cash Book | XX |
|  | **XXXXX** |
| Deduct: Debits in Bank Statement not yet in Cash Book | XX |
| Balance as per Bank Statement | **XXXXX** |
| Prepared by:……………………………………………... Date:………………………. |
| Reviewed by:……………………………………………… Date:………………………. |
| Approved by:………………………………………………. Date:………………………. |

## Annex 2: Payment Requisition form

|  |  |
| --- | --- |
| **CSO** |  |
| **PAYMENT REQUISITION FORM** |  |
| STAFF NAME ……………………………………………………………………. | POSITION……………………………………..…….. |
| ACCOUNT NAME…………………………………………………………………………………………………… |
| AMOUNT………………………………………………………………………………………………………………. |
| PAYEE/SUPPLIER………………………………………………………………………………………………….. |
| QUANTITY…………………………………………………………………………………………………………….. |
| REASON FOR PAYMENT/PURCHASE…………………………………………………………………………… |
| ………………………………………………………………………………………………………………………….. |
| ………………………………………………………………………………………………………………………….. |
| ………………………………………………………………………………………………………………………….. |
| …………………………………………………………… |  |
| REQUESTED BY |  |
| DATE…………………………. |  |
| …………………………………………………………….. |  |
| AUTHORIZED BY (HEAD OF DEPARTMENT) |  |
| DATE…………………………. |  |
| …………………………………………………………….. |  |
| APPROVED BY (HEAD OF FINANCE) |  |
| DATE…………………………. |  |

## Annex 3: Cash payment voucher

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of CSO** |  |  |  |
| **CASH PAYMENT VOUCHER** |  |  |  |
| PAYEE……………………………………………………………… | DATE……………………………… |
| ADDRESS:………………………………………………………… | PV No…………………………….. |
| ……………………………………………………………………… |  |  |  |
| ACCOUNTNAME:…………………………………………………………………………………………………… |
| PARTICULARS | CODE | COST CENTRE | AMOUNT |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| TOTAL |  |
| AMOUNT IN WORDS………………………………………………………………………………………………. |
| ……………………………………………………………………………………………………………… |
|   |
| PREPARED BY:…………………………………………………DATE……………………...………………….. |
| APPROVEDBY:…………………………………………………DATE……………………………………………. |
| RECEIVED BY: NAME:……………………………………..……………Phone #………………………………SIGNATURE:……………………… |

## Annex 4: Check payment voucher

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of CSO** |  |  |  |
| **CHECKS PAYMENT VOUCHER** |  |  |  |
| PAYEE……………………………………………………………………… | DATE……………………………… |
| ADDRESS:…………………………………………………………………. | PV No..…………………………… |
| ……………………………………………………………………………….. | CHECKS No…………………….. |
| ACCOUNTNAME:…………………………………………………………………………………………………… |
| PARTICULARS | CODE | COST CENTRE | AMOUNT |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| TOTAL |  |
| AMOUNT IN WORDS………………………………………………………………………………………………. |
| ………………………………………………………………………………………………………………………… |
| ………………………………………………………………………………………………………………………… |
| PREPARED BY:…………………………………………………DATE……………………...………………….. |
| AUTHORIZED BY:………………………………………………DATE………………………………………….. |

|  |
| --- |
| APPROVEDBY:…………………………………………………DATE……………………………………………. |
| RECEIVED BY: NAME:……………………………………..……………Phone #……………………………… |
| SIGNATURE:…………………………………………………………………………………….. |
| DATE:…………………………………………………………………………………………….. |

## Annex 5: Journal Voucher

|  |
| --- |
| **CSO** |
| **JOURNAL VOUCHER** |  |  |  |  |
| JVNo……………………………………… |
| Date…………………………………………. |
| Account Name | Account Code | Cost Centre | DRAmount | CRAmount |
|  |  |  | $ | $ |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Total |  |  |
| Prepared By:………………………………….…………….Date……………………...………………… |
| Approved By:……………………….……………………….Date………………………………………… |
| Posted By:……..…………….………………………………Date……………………………….………. |

## Annex 6: Cash balance Certificate

|  |
| --- |
| CSO |
| CASH BALANCE CERTIFICATE  |
| DATE………………….………………… |
| Period: | From:……………………………………… |  |
| TO:……………………...………………… |
| Currency: | ………………………………..……………. |  |
| Account: | ……………………..………………………. |  |
| Balance from previous period |  | xx |
| Cash received during this period |  |  xxxxx  |
| Total available |  |  | xxxxxxx |
| Less cash payments during the period |  |  xxxx  |
| Cash Balance as at period date |  | xxx |
| Physical Cash Count: |
|  | Denomination | Quantity | Amount |
|  |  |  | $ |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  | xxx |
| Difference |  |  | $0 |
| *Checked by: …………………………………………………………..Date………………………………………* |
|  | Accountant |  |  |

|  |
| --- |
| *Witnessed by………………………………………................Date……………………………………* |
| *Cashier* |
| *Approved by: ………………………………………………………...Date………………………………….…* |
| Head of Finance |

1. AICS, 2018: Analysis on CSO’s capacity building strengths and areas of improvement based on CSOs’ certification assessment findings. [↑](#footnote-ref-1)