

# Finance Standard Operating Procedures

## ASB Iraq Country Offices

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# 1. Introduction

## 1.1. Background

This Financial Policy Manual comprises of methods and measures that is to be adopted by Admin/Finance Manager (AFM) Iraq to safeguard its assets, secure the accuracy and reliability of its accounting data and promote operational efficiency. The manual also provides an introduction to finance policies and procedures, role of key staff in financing and accounting functions, how to budget and dealing with various financial transactions. This also includes delegated authority, budgetary procedures and control, training programs, screening procedures of prospective employees and safe work practices. ASB CO Iraq Finance Policy and SOP is based on HQ Financial Policy and Procedures (latest version 1.1., issued 30.09.2019) with specific adaptation to the Iraq context and National Laws and requirement for flow of work.

## 1.2. Objectives of the Manual

- a. To standardize the way Finance and accounting activities are carried out in the ASB CO Iraq in order to ensure consistency.
- b. To provide a guidance to all staff of Accounts and Finance for smooth execution of their duties.
- c. To have in place an adequate system of internal controls that promotes a high level of compliance with ASB CO Iraq policies and procedures.
- d. To continuously review the internal control system to be able to meet the challenges of growth and globalization.
- e. To implement and maintain this system of control to assist ASB CO Iraq to carry out its activities in an efficient and orderly manner, ensure adherence to management policies, safeguard ASB's assets, and secure the accuracy and reliability of its records.

## 1.3. Authority and Scope of the Manual

The Policy sets detailed guidelines for the Financial Department and its employees to assist them in ensuring the orderly and efficient management and control of all program resources, and to render proper accountability to all stakeholders. It is also the duty of all personnel, Program and Project Managers, section heads and all officers to take care that these instructions are followed.

It is concerned with effective financial control over program assets, liabilities, funds, and expenditure together with the systems required to account for the financial operations of the program. In sum, the policy conveys procedures and guidelines for sound financial management and administration of the Financial Department's work.

## 2. Financial Responsibilities of ASB- Iraq Staff

### 2.1. Duties of Admin and Finance Manager (AFM)

The Admin and Finance Manager (AFM) is responsible for the efficient and effective financial management of ASB CO Iraq and for the development and maintenance of the necessary systems to safeguard the assets and financial operations of ASB.

The Admin and Finance Manager AFM's work includes but is not limited to:

- assisting in the formulation of the policies to be adopted by AFM in financial and manpower terms;
- assisting in carrying out the financial policies of ASB CO Iraq;
- making recommendations concerning financial policies;
- ensuring that proper accounts and records of ASB's assets, liabilities, operations and transactions are maintained and that statutory objectives in this regard are discharged;
- keeping under review, the structure of ASB's financial information and accountancy systems;
- ensuring that they are developed and maintained as viable and efficient systems meeting the needs of ASB;
- review and development of the salary scale; working in collaboration with other key players in ASB, partners and stakeholders;
- controlling income and expenditure and general financial administration of ASB CO Iraq;
- ensuring that all payments due by ASB including salaries and fees are duly made, ensuring responsible stewardship and safe custody of cash and other assets of ASB;
- ensuring the preparation, presentation and interpretation of periodic financial project reports and cost statements;
- advising management on matters of the controls of costs and achievement of budget plans by the provision of regular or adhoc information;
- drawing attention to any point of weakness in ASB's operations as indicated by accounting information;
- operating an effective procedure for the evaluation of project proposals and assisting in submitting these to the relevant authorities or donors;
- preparing operating budgets;
- ensuring that management, in general, and his/her own area of responsibility in particular, operate in accordance with the approved budgets;
- providing effective financial control records on all projects and liaising fully with other project managers and the Country Representative;
- defining the responsibilities of all senior staff under his/her control;
- ensuring that training and skills development of financial staff is carried out;

- assisting in the development of computerization strategies and furthering the development of computer based financial accounting and financial information systems.

## 2.2. Duties of Finance Officer

A Finance Officer MUST NOT in any circumstance mix ASB's and private money. He MUST NOT apply ASB's money to any purpose not duly authorized, nor must he lend, advance or exchange any sum for which he is accountable. He must see that all ASB monies or other assets entrusted to him are kept in a safe place.

It is the duty of any officer having financial responsibilities in connection with her official duties, to observe the following requirements in as far as they may be applicable to his particular duties:

- to fully acquaint himself with the Financial Regulations and accounting instructions, and to take care that all are duly observed;
- to promptly bring to account, under the proper headings of the Budget and accounts;
- to ensure that proper provision is made for the safe-keeping of ASB's money, stamps, official receipts, requisitions, cheque books, Local Purchase Order Books, and all other accountable documents, and assets under his charge;
- to exercise supervision over all officers under his authority entrusted with the receipt and expenditure of ASB and to take precautions, by the maintenance of efficient and regular checks, against the occurrence of misappropriation or negligence;
- to ensure that no payment is made without proper authority being obtained and where applicable, quoted on the payment voucher;
- to check daily, all cash in his charge and to verify the amounts with the balances shown in his records;
- promptly make good any deficiency in cash, or other ASB assets for which he is responsible not caused by misappropriation and to report all other losses and deficiencies in writing to the relevant Program Manager (if applicable), Admin and Finance Manager and Country Representative;
- to charge promptly in his accounts under the proper heading and sub-heading all disbursements of ASB money in accordance with the current budget;
- to submit any financial statements required by Management;
- to see that all books of account, registers, records, are maintained in accordance with Accounting Instructions and Financial Regulations and are posted and kept up-to-date and when not in use, are kept in safe custody;
- to report to the Country Representative and Finance Admin Manager any apparent waste or extravagance in expenditure which comes to his notice;
- to produce when required all cash, stamps, assets, securities, books of account, vouchers, or other documents in his charge for inspection by the AFM,



- to reply promptly and fully to all financial and other queries raised by management, giving the particulars or information required;
- to acquaint himself/ with such laws, regulations, management decisions and circulars as relate to his financial duties.

### 2.3. Pecuniary Responsibility of Officers

All officers bear personal pecuniary responsibility for the due performance of their financial duties, for the proper custody of all ASB money received by them or under their authority, and for any inaccuracies in accounts rendered by them. No officer should be relieved from any portion of his responsibilities if he delegates to his subordinates the performance of duties which he should have performed himself.

All senior management decisions relating to finance must be extracted and circulated to all Financial Officers especially to those whose duties such decisions may affect.

The Senior Management may surcharge any ASB employee responsible for:

1. the loss, damage or destruction of ASB property;
2. the unauthorized payment of monies belonging to ASB.
3. the willful failure to collect monies due to ASB.

### 2.4. Audit Inspection Duty Officers

- The Internal Auditor is responsible for regular checks and/or test checks of the financial operations of ASB.
- The responsibility of the Internal Auditor does not absolve any officer from his responsibility.
- The Internal Auditor may recommend system/procedural changes to management but has no authority (except as part of the Senior Management Team decisions) to direct management/ subordinate staff to carry out such changes.

## 3. Budgeting

### 3.1. General Budgeting Policies

**Budgets Approval:** All proposed plans and budgets should be reviewed and approved by each successive level of supervisory management.

**Budget limits:** All spending should be within the budget limits.

**Internal Accounting Controls:** The Admin and Finance Manager should review accuracy and completeness of plans and budgets.

### Budget Preparation: Responsibilities

Each Department/program is responsible for preparing their draft budgets; these should be reviewed and revised as necessary by Country Representative, and consolidated by AFM to produce the draft budget for submission to ASB HQ.

**Budget Preparation Process:** The budget should be prepared and approved in accordance with the budget instructions issued by ASB.

**Items to be included in the Budget:** The budget should include the anticipated revenue from all sources, and all sums required to meet the anticipated expenditure during the year to which the budget relates. It must be constructed to show as accurately as possible the amount expected which should actually be required to maintain the services and projects of ASB CO and which should actually be receivable during the year. Every Program Manager cost/fund shall include all items relating to that particular cost/fund of all activities, including activities of the projects so as to show clearly the total estimated cost and funding of the Program and activity during the year.

**Basis of Preparing Budgets:** ASB separates their annual budgets into two components: the operating budget and the capital budget.

### 3.2. Format of the Budget

The budget should be prepared in the prescribed format, and should include:

- a. Recurrent expenditure and all that falls under this category;
- b. Capital expenditure budget showing: capital project, total anticipated cost and method of financing. Estimates for each department showing: department name and code, detail description and code of items budgeted for, current year approved budget and budget for following year;
- c. Statement of proposed budget categories, and anticipated income from each budget classification;
- d. Estimated cash flow statement for the budget year;
- e. Detailed working papers substantiating all items included in the budget.

### 3.3. The purpose of the Budgeting system

The budgeting system is important as it:

- develops realistic financial plans that should facilitate allocation of resources according to ASB's activity priorities;
- provides a control tool to ensure that spending is in line with time plans and budget amounts;
- provides periodic variance reports of actual and budget amounts to form a basis for investigation and necessary decision making;

- can be used to compare and monitor cumulative expenditure by budget code to the original budget allocation;
- effectively supports the improvement of the annual comprehensive business plan and its periodic review.

### 3.4. Items to be included in the budgets

The list of the types of expenditure that are normally included under each estimate sheet:

1. Employees: These are costs that can be directly attributed to employees of ASB e.g. salaries, bonuses, medical costs.
2. Premises: The maintenance and purchase of minor items of fixtures and fittings within each office and departments.
3. Repair and Maintenance: The expenses for Water, the operating and Electricity, upkeep of the Rent and rates, premises housing Cleaning materials, of each office and department. And Insurance and Depreciation.
4. Transport and Vehicles: Fuel and Lubricants, costs of Repairs and Maintenance, hire of transport, insurance, licenses, etc.; vehicles, and hiring of Third parties; depreciation relating to assets in this category.
5. Supplies and Services and Organization Expenses includes:
  - All anticipated costs for each relevant sub-heading.
  - The travelling and subsistence code under this heading should include costs of travelling and subsistence which has to be specifically approved e.g. transport for travel, weekend working, lunch payments for lunchtime working.
6. Financing Costs: Capital Expenditure; A separate statement needs to be submitted giving details of any anticipated capital expenditure. This statement needs to show the total cost of the capital project.

### 3.5. Steps of Developing a Budget

#### Step 1: Establish Goals that ASB CO Iraq wants to attain.

They define the desired outcome(s) or end result(s) and are typically general in nature. The ASB goals should be definitive and concise;

#### Step 2: Establish Objectives

That represent the specific results desired within a fixed period of time. They should specify what is to be accomplished, for whom, and by what date. In terms of the budget, an objective represents a targeted achievement for the forthcoming year(s). Each objective has one or more performance measure(s). Objectives should reflect planned achievements in service quality or service level; thus, key words used in stating objectives include increase, reduce, expand, complete, prevent, maintain. Goals and quantifiable objectives can be developed for the

activities of individual area offices or Departments/Departments as well as for the entire ASB CO Office.

### Step 3: Prepare a Budget Calendar

That establishes the process and schedule FAM should follow in developing the budget. The calendar helps you prepare and enact the budget in a timely way. At a minimum, the calendar should indicate the dates when:

- You should distribute budget worksheets, instructions, and guidelines to departments;
- You should prepare revenue estimates;
- You should compile budget requests and summarize them into a single budget document;
- The finance committee of the Board (in Cologne) will review budget requests and make appropriate adjustments to budget proposals;
- The ASB HQ in Cologne should adopt the budget.

### Step 4: Define Roles in Budget Preparation.

There are three major administrative roles in the budget preparation process:

- Preparing budget proposals for consideration by ASB HQ in Cologne;
- Explaining current fiscal conditions, fiscal prospects, and budgetary proposals to the ASB HQ in Cologne;
- Implementing the budget enacted by the ASB HQ in Cologne and monitoring performance to ensure that fiscal policies are followed.

The Administration and Finance Manager (AFM) coordinates the entire budgeting process. His role may be of three general types:

- To serve simply as a coordinator of budgeting process.
- To perform a significant policy guidance function and become involved in all the financial issues relating to the budget.
- In this role, the Administration and Finance Manager (AFM) not only coordinates all materials, but also assumes analytical and guidance functions, such as:
  - a. Issuing guidelines to Department officials regarding the acceptable level of service increase or decrease and expected cost limitations;
  - b. Evaluating Department requests and adjusting them to policy guidelines;
  - c. Balancing expenditure requests with available revenues;
  - d. Making recommendations for budget action to the Country Representative.
- Directly supervise budget implementation. The specific tasks under this role may include but are not limited to:
  - a. Ensuring that the departments does not exceed budget limits by conducting periodic projections of expenditures and comparing them to available resources;

- b. Maintaining a centralized position control to ensure that new staff are hired only into authorized positions and at salaries no greater than the amount designated in the budget;
- c. Reviewing and approving all requests to transfer funds from one budget to another;
- d. Preparing reports on budgetary performance for the use of the ASB management;
- e. Closely monitoring budget performance to determine potential problems.

#### Step 5: Distribute Forms for use in Budget Preparation.

The Administration and Finance Manager (AFM) distributes budget preparation forms and instructions to ASB departments. Ideally, this package includes ASB goals and objectives established in Steps 1 and 2 to guide managers in establishing funding priorities that are consistent with overall ASB priorities. The people who manage offices should be involved in the budget process for ownership reasons that eventually make budget implementation easy.

#### Step 6: Review the Budget Requests

The board or the finance committee is in the unique position to review all requests and must thus be prepared to establish priorities in light of major issues or potential fiscal problems facing the ASB CO. The review of submissions should start by ensuring that proposals are consistent with the budget policies established at the beginning of the budget process. Typically, the sum of all budget requests should exceed the total of estimated revenues plus any estimated surplus from the current year. Departments should compete for access to limited ASB funding sources. Finance department should have to make tough choices, but should make them in the context of the ASB's overall mission and goals. The Administration and Finance Manager (AFM) should make sure that the finance committee and other appropriate committees receive all the materials they need to give full, effective consideration to the budget proposals presented by Managers.

#### Step 7: Prepare the Budget Document

The budget document is the final product of the process, and the quality of the budget depends largely on the quality of that process. At each stage of development, the budget takes on a different form. Proposed budgets are usually the most comprehensive and largest versions, because they contain critical decision-making information. Adoption of final budget shall be a smaller summary document that you use to communicate final policies and appropriations.

Communicate budget decisions accurately and clearly. At different stages of development, the budget reflects inputs from different departments and decisions made by Managers, management and finally, the ASB HQ in Cologne. The budget must accurately reflect the results of this process.

The budget serves as the official action plan for managers and staff charged with carrying out ASB functions and programs. Ultimately, the budget document is the vehicle for informing the employees, management, and other stakeholders regarding the ASB's policies and priorities.

The Administration and Finance Manager (AFM) should format and print the budget document in a way that facilitates understanding and enhances the budget for all stakeholders.

### Step 8: Adopt the Budget

Once you submit the proposed budget, and the ASB HQ in Cologne reviews it, it may undergo more changes until ASB HQ Cologne approves it. Adoption of the proposed budget by the Board in Cologne establishes the legal authority for administrative officials to incur expenditures in the fiscal year. The adoption of the proposed budget is the culmination of an exhaustive review of budget proposals by the Board in Cologne.

### 3.6. Office budget

ASB at Country Office (CO) under the supervision of the Country Director (Country Representative) and in consultation with relevant staff will **prepare** the new office **budget** towards the **end of each year (November)**, covering the period of one year (January to December). The Country Representative will submit it to the ASB HQ for approval.

Consider the following resources (cost and income), following the ASB standard budget:

1. Office Building and Warehouse;
2. Communication;
3. Office equipment & Consumption;
4. Other costs, Services
5. Vehicles;
6. Duty trips;
7. PR and Visibility;
8. International staff;
9. Local staff;
10. Other Personnel Costs;
11. Income and reimbursements Office projects;
12. Miscellaneous;
13. Income ASB contribution.

Each ASB budget line should be planned with Unit Specification, Quantity, Months, Percentage covered, Unit rate and Exchange rate.

The office project includes costs that are essential for the running of the CO but are not covered or not fully covered in donor projects.

### 3.7. Program Budget

Program budget (Donor project budget) will be prepared by the Country Representative with the support of the AFM in line with the donor requirements and in consultation with project partners and the ASB HQ. The period of the program budget may differ from case to case in accordance with the project agreement with the partner, funding arrangement and donor guidelines.

The budget template for the program budget and the eligible cost depend on the specific donor. The budget needs to reflect the project activities proposed in the project and all necessary

resources to implement the project. Same as for the office project each donor budget line should be planned with Unit Specification, Quantity, Months, Percentage Covered, Unit rate and Exchange rate.

In case the donor project requires ASB contribution, check if the amount, required in the current year, was allocated in the country budget by consulting Country Representative and HQ. Select a realistic exchange rate to the EUR for expenditures in local currency. For multi-year projects also factor in inflation.

Administrative (indirect) costs: Indirect costs are calculated as a percentage of the sum of the direct cost. Administrative costs are booked in HQ only. For details regarding admin costs please refer to section "Treatment of Administrative Costs in the ASB Foreign Aid Department."

### 3.8. Contingency Budget

Budget reserve to cover unforeseen costs. Only a few donors allow a specific contingency reserve in their budget template.

Budget should be drafted as a joint effort, taken the input from the program staff, project management, Country Representative and AFM. Each budget submitted should be double checked by the AFM and ASB Program Coordinator in ASB HQ (PC) before submission to the donor.

### 3.9. Preparation of BL links

Once the budget is approved by the donor, AFM prepares the link between ASB budget line and donor BL which is a requirement in the ASB accounting Fundtrac. For better overview insert an additional column next to the donor budget coding of the approved budget.

Based on project activities, allocated staff categories and the decision for real or shared cost ASB budget lines. the appropriate ASB budget lines are selected for each donor budget line.

Finance HQ creates the project in Fundtrac based on the information sent by ASB CO and PC. Once the project is created in Fundtrac, the report "Underlaid and Available Donor Budget" can be generated from Fundtrac and is available as reference for the links.

### 3.10. Budget implementation and monitoring

#### **(use of accounts and budget lines)**

The monitoring of overhead and implementation costs is the responsibility of AFM and Country Representative.

The purpose of regular budget monitoring is to:

1. Analyze the performance of the project/activity and make decisions related to the project management/ implementation;
2. Monitor the budget (budget control = budget variance between approved and actual figures to avoid any significant over/ under-expenditures;
3. Identify any required modifications and take corrective action as and when needed.



The budget monitoring is undertaken in two ways:

1. Office budget: AFM will provide regular financial information on ASB's expenditures including the budget control. AFM will also provide a brief overview of the expenditures during weekly/monthly team meetings chaired by the Country Representative. AFM will also identify any anticipated over and/or under-expenditures and initiate respective actions as required (i.e. budget revision with the HQ in case of significant changes) in consultation with the Country Representative.
2. Program budget(s): is guided by the project agreement with the donor or partner. ASB CO Iraq, in consultation with PC, Program Manager and Country Representative, is responsible for regular monitoring of the project implementation costs and initiation of the corrective actions as required. The AFM will also provide relevant guidance and support to the partners for financial management when and as needed. The partner also receives training on ASB's financial management policy and reporting requirements upon entering into the project agreement with ASB.

**The COUNTRY Representative and AFM must promptly notify HQ of any emerging risks associated with overhead and/or implementation costs along with suggested courses of action to mitigate these risks.**

#### Tools for monitoring budgets

**The one and only tool to monitor budgets of ASB's expenditures and income is the accounting software Fundtrac!**

**Excel is allowed only for partner expenses recorded outside ASB's financial system as monitoring tool!**

The recommended combination of Fundtrac reports to be submitted monthly to Country Representative and project management are:

- a. Display transactions (Donor BL – Range)
- b. Budget Control (Reports – Project – Budget Control).

For follow up with program management, specific information should be exchanged, combined with monthly budget meetings. An example of the input of the program management for financial budget monitoring is presented in 'Annex 3.3 - Budget planning Program management'.

#### Budget revision (Notification letters, Notes for the file, Amendments)

Office budget revision will be initiated by AFM and Country Representative as per the CO requirements and modifications made in consultation with the HQ.

Program budget will be revised by the CO based on the project needs and upon request of the project partners (in case of a partner project), in consultation with the HQ and with the official approval of the donor.



Donors allow certain budget flexibility, for instance BMZ allows 30% between budget lines. If the budget revision remains within the allowed budget flexibility, the donor must be informed by Notification letter and Notes for the file only.

Budget changes in excess to the donor flexibility and extension of the project duration require an amendment to the donor contract. The amendment should be discussed with the PC and the donor beforehand. Only after the amendment is signed/approved the expenditures, subject to the amendment, can be incurred.

**Due to specifics of each donor, we have to check the respective donor guidelines, contracts and procedures in order to comply with all applicable rules for every single project and share the information with all relevant ASB staff members and partners.**

## 4. General Financial Transactions

### 4.1. Bookkeeping and Accounting

#### Rules of professional bookkeeping

##### **(basic concepts and components)**

Bookkeeping is recording of financial transactions of the organization. This includes purchases, sales, receipts, and payments and is part of the process of accounting in the organization. This is the first step of the process which provides information to create reports/financial statements/final accounts at the end of the financial year/at the end of a project or when donors need any information at any given time.

The system of recording financial transactions allows us to monitor bank balances, status of funds receipts and expenditures, and a comparative statement of budget vs. actual expenditure on a regular basis.

ASB will also maintain records of fixed assets, petty cash disbursements, supplies, inventory, the use and maintenance of office equipment.

The cash basis and accrual basis of bookkeeping are two different methods used to record accounting transactions. The core underlying difference between the two methods is the point of time when the transaction is recorded:

- Cash basis: Income is recorded when cash is received from donors, and expenses are recorded when cash is paid to suppliers and employees.
- Accrual basis: Income is recorded when earned and expenses are recorded when consumed.
- An organization can record its transactions either on 'single entry system' or 'double entry system' of bookkeeping. The former is less complex as well as less time consuming while the latter completely records the transactions which need substantial effort and time.
- Single entry system of bookkeeping records only one side of the financial transaction.
- This is economical but at the same time it is unscientific because it does not record
- all the transactions, rather only a few ones are tracked, and some are recorded partially.
- Double entry system of bookkeeping is in which every transaction affects two accounts simultaneously and is based on fundamental principles of accounting, so it records each and every aspect of the transaction.

#### Importance of Book keeping

##### **Information**

Keeping proper accounting records enables you to prepare reports that give managers important information about how the NGO is doing financially. You can then make informed decisions so that you can deliver a project within budget, avoid cash flow problems, and make future plans.

##### **Accountability and transparency**

If you clearly record all your receipts and payments, and file supporting evidence for every transaction, it means that all relevant staff engaged in the project can at any time have the correct and precise overview of the funds.

### **Legal requirement**

It is a legal requirement in every country in the world for registered entities to keep accounting records. If you are not registered as an NGO or a company, it is likely to be a requirement of your Head Office or donors.

### **'Books of account'**

Is where you write down details of all your financial transactions, including: the amount spent/received, the date when transaction happened, a reference number, budget code/line where the cost/income needs to book and a description of the transaction.

The simplest of all the 'books of account' is called a cashbook. One of the first steps in a new system is to start a cashbook and keep it up to date - by adding the details of every new transaction that happens.

### **A supporting document for every transaction**

For example, a receipt, invoice or signed authorization form. This is evidence that the details recorded in the books of account are correct.

**Bookkeeping** is the job of keeping all these 'books of account' up to date.

## [Double-entry bookkeeping and financial statements](#)

### **Double-entry bookkeeping**

Double-entry bookkeeping is a system of bookkeeping so named because every entry to an account requires a corresponding and opposite entry to a different account. The double entry has two equal and corresponding sides known as debit and credit. The left-hand side is debit and right-hand side is credit.

In the double-entry accounting system, at least two accounting entries are required to record each financial transaction. These entries may occur in asset, liability, equity, expense, or income accounts. Recording of a debit amount to one, or more accounts, and an equal credit amount to one, or more accounts, results in total debits being equal to total credits for all accounts in the general ledger. If the accounting entries are recorded without error, the aggregate balance of all accounts having Debit balances will be equal to the aggregate balance of all accounts having Credit balances.

Accounting entries that debit and credit related accounts typically include the same date and identifying code in both accounts, so that in case of error, each debit and credit can be traced back to a journal and transaction source document.

If at any point the sum of debits for all accounts does not equal the corresponding sum of credits for all accounts, an error has occurred. However, satisfying the equation does not guarantee that there are no errors; the ledger may still "balance" even if the wrong ledger accounts have been debited or credited.

The accounting entries are recorded in the "Books of Accounts". Regardless of which accounts and how many are impacted by a given transaction, the fundamental accounting equation of **assets equal liabilities plus capital** will hold.

There are two different ways to memorize the effects of debits and credits on accounts in the double entry system of bookkeeping:

### **Traditional Approach**

Real account (assets and liabilities including the capital account of the owners): debit what comes in and credit what goes out.

Personal account (persons or organizations): debit the receiver and credit the giver.

Nominal account (Income, expenses, gains, and losses): debit all expenses & losses and credit all incomes & gains.

### **Accounting equation approach**

Under this approach transaction are recorded based on the accounting equation, i.e.,  $\text{Assets} = \text{Liabilities} + \text{Capital}$ . The accounting equation is a statement of equality between the debits and the credits. The rules of debit and credit depend on the nature of an account.

For the purpose of the accounting equation approach, all the accounts are classified into the following five types: assets, liabilities, income/revenues, expenses, or capital gains/losses.

If there is an increase or decrease in a set of accounts, there will be equal decrease or increase in another set of accounts. Accordingly, the following rules of debit and credit hold for the various categories of accounts:

1. **Assets Accounts:** debit entry represents an increase in assets and a credit entry represents a decrease in assets.
2. **Capital Account:** credit entry represents an increase in capital and a debit entry represents a decrease in capital.
3. **Liabilities Accounts:** credit entry represents an increase in liabilities and a debit entry represents a decrease in liabilities.
4. **Revenues or Incomes Accounts:** credit entry represents an increase in incomes and gains, and debit entry represents a decrease in incomes and gains.
5. **Expenses or Losses Accounts:** debit entry represents an increase in expenses and losses, and credit entry represents a decrease in expenses and losses.

### **Importance of double entry**

Double entry system has become so important and used all over the world because, when many transactions have been entered and you need to prepare a report, rather than manually adding down the list, you can turn to each page and note the totals. That is very quick and easy. You can be confident that there are no errors by writing down the balances from every page, according to whether it is a left balance or a right balance. If the totals on the left is equal to the totals on the right, you can be confident that there has been no errors. That is very safe and accurate.

## **4.2. Financial Statements**

Financial statements are a formal record of the financial activities and the position of the organization. Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis.

Financial statements of the organization contain:

1. **A balance sheet or statement of financial position** - reports on an organizations' assets, liabilities at a given point in time.

2. **An income statement or statement of comprehensive income, statement of revenue & expense, P&L or profit and loss report** - reports on an organizations' income, expenses, and profits over a period of time.
3. **A statement of changes in equity or equity statement or statement of retained earnings** - reports on the changes in equity of the company during the stated period.
4. **A cash flow statement** - reports on the NGO's cash flow activities.

Financial statements are not just a legal requirement. They provide information to all stakeholders including beneficiaries, the board, donors, auditors and the general public. And they also provide information for internal use such as monitoring expenses within the organization.

#### 4.3. Chart of Accounts and Standard Budget

The **Chart of Accounts** is the most important organizing tool in the accounting and reporting processes.

There are many kinds of financial transactions taking place in a NGO: a wide variety of goods and services is procured to help achieve the objectives and different kinds of income are received.

To keep all these financial activities in order, it helps to 'sort' the different types of income and expense into a series of pre-determined categories - *Accounts*. These Accounts are listed in the Chart of Accounts and are typically arranged in a logical order: Income and Expenditure, Assets (things we own) and Liabilities (things we owe).

When a transaction takes place, it is recorded in the books of accounts and categorized according to the guidance held in the Chart of Accounts. The same categories are used in the organization's budget and financial reports, so promoting consistency and transparency.

The **Standard Budget** is a more detailed approach than chart of accounts, which we use for categorization of income and expenditure. The most recent up-dated soft-copy version you have in '- Standard budget' of this document. Detailed description of budget heading and single BLs, as well as their function/usage is explained in the document itself.

Additionally, allowed combinations of ASB BLs and accounts are displayed from both sides (ASB BL => account and account => ASB BL).

#### 4.4. Incoming documents from suppliers and the due checks

##### **(which will become supporting documents of vouchers)**

All recorded financial transactions must be consisted of the following documents:

- a. proforma invoice,
- b. invoice,
- c. delivery notes (if applicable),
- d. offers (if applicable),
- e. ASB cover page for voucher,
- f. bank statement or cash payment request.

The date of payment has to be according the bank statement or the date of cash in or out, in case of cash payment.

Completed supporting documentation of each voucher must be available and clearly scanned on ASP in the respective folder.

All incoming invoices from suppliers must include: date of invoice, address and name of the recipient (FAM), amount in numbers and words, currency of payment, percentage or amount of value added Tax (VAT), tax number of the supplier, quantity and clear description of goods/services obtained, authorized signatures and stamp.

All above mentioned specifics regarding suppliers' invoices may and will vary from country to country depending on the local legislative.

In case of the discrepancy between the actual amount paid and the value indicated on the receipt, the actual amount paid has to be stated on the voucher and recorded in Fundtrac/Fundtrac Light.

#### 4.5. Supporting Documents to Vouchers

The table below provides examples of supporting documents that should be linked and identifiable as relating to specific receipts and transactions. The following are additional examples to documents that are required for all transactions: voucher cover page, invoice, receipt, etc.

Type of transactions	Supporting documents
Office Rent	<ul style="list-style-type: none"> <li>- Written contract (as copy in case of monthly or quarterly instalments)</li> <li>- Cost sharing calculation for PPs (in the case of costs shared across a number of funding sources or projects)</li> <li>- Bank statement and cover page with all transparency details (at least two authorised signatures, date of the payment, project, ASB budget line, Donor budget line, detailed memo describing the period and the purpose of the payment)</li> </ul>
Office Utilities	<ul style="list-style-type: none"> <li>- Cost sharing calculation for PPs (in the case of costs shared across a number of funding sources or projects)</li> <li>- Bank statement and cover page with all transparency details (at least two authorised signatures, date of the payment, project, ASB budget line, Donor budget line, detailed memo describing the period and the purpose of the payment)</li> <li>- Original invoice</li> </ul>
Salary Payment	<ul style="list-style-type: none"> <li>- Copy of staff member contract, copied once for the whole project period and attached to the first payment</li> <li>- Time sheets (if applicable)</li> <li>- Salary calculation (salary amount plus allowance and minus deductions)</li> <li>- Payment or transfer evidence (bank transfer only allowed)</li> <li>- Evidence of tax, social security payments clearly including the employer's contributions as relevant</li> </ul>
Travel and Transportation (Air, Land and Sea)	<ul style="list-style-type: none"> <li>- Travel               <ul style="list-style-type: none"> <li>- Original ticket or printout of e-ticket</li> <li>- Boarding pass for air (sea) travel</li> <li>- Travel authorisation (if applicable)</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>- In case of any reimbursement, proof of payment is required.</li> <li>- Vehicle rental costs: contract with the company, tender documentation only for procurement department,</li> <li>- Vehicle log book</li> <li>- Local transportation <ul style="list-style-type: none"> <li>- Receipt from taxi, bus, other local transportation documenting actual cost and including reason, dates and destinations for project related travel</li> </ul> </li> <li>- Bank statement and cover page with all transparency details (at least two authorised signatures, date of the payment, project, ASB budget line, Donor budget line, detailed memo describing the period and the purpose of the payment)</li> <li>- Original invoice</li> </ul>
Accommodation, professional meetings and events (including meetings, business meals, workshops and trainings)	<ul style="list-style-type: none"> <li>- Attendance list, including signatures of participants (workshops, training etc.)</li> <li>- Report or minutes for meeting, workshops, trainings, etc.</li> <li>- Original invoice</li> </ul>
Per diem	<ul style="list-style-type: none"> <li>- Travel Authorisation</li> <li>- Per diem calculation sheet</li> <li>- Boarding passes, or equivalent to prove travel date and time</li> <li>- Bank statement and cover page with all transparency details (at least two authorised signatures, date of the payment, project, ASB budget line, Donor budget line, detailed memo describing</li> </ul>
Payment Honorarium (consultant, resource person, etc.)	<ul style="list-style-type: none"> <li>- Assignment letter/contract/CV (contracts must be in line with tax laws in the country and taxes paid by either party as applicable under law. The contract should state clearly who is responsible for tax payments in line with labour regulations and tax laws)</li> <li>- Activity report</li> <li>- Copy of identity card</li> </ul>
Printing and communication related visibility activities	<ul style="list-style-type: none"> <li>- Copy of materials printed (flyers, T-shirts, copy book, picture/documentation/banner, etc.)</li> <li>- Distribution list</li> <li>- Bank statement and cover page with all transparency details (at least two authorised signatures, date of the payment, project, ASB budget line, Donor budget line, detailed memo describing the period and the purpose of the payment)</li> <li>- Original invoice</li> </ul>
Office Supplies and Equipment	<ul style="list-style-type: none"> <li>- Bill of quantity</li> <li>- Delivery notes for supplies</li> <li>- Bank statement and cover page with all transparency details (at least two authorised signatures, date of the payment, project, ASB budget line, Donor budget line, detailed memo describing the period and the purpose of the payment)</li> <li>- Original invoice</li> </ul>



	- Tender procedure or three offers (if applicable)
Phone, Internet and related communication costs	- Bank statement and cover page with all transparency details (at least two authorised signatures, date of the payment, project, ASB budget line, Donor budget line, detailed memo describing the period and the purpose of the payment) - Original invoice

#### 4.6. Additional specifics for different transaction types

- **Cash payments:** Signature of recipient of the cash payment
- **Bank payments:** Bank payment order
- **Project Participations:** Excel table for percentage or/and Internal voucher of the original booking
- **Re-allocation:** Original voucher for the previous booking (what do you need to reallocate)

#### Templates & authorizations

- **Templates in use:** bookings and **Internal Voucher**
- **Authorizations:** Checked/Approved by: to be signed by Country Director or AFM

Prepared by: to be signed by AFM Manager, Finance Officer or Finance Assistant

Recipient: to be signed by the Recipient of the cash payment of the First Receiver (in most cases member of FAM staff)

#### 4.7. Filing

ASB will retain its accounting records and related supporting documents in the COs for at least 7 years and in ASB HQ for 10 years.

In addition to this in case the donor requires longer period for retention of accounting records, FAM will retain accounting records as per donor requirement.

The filing of hardcopies of **project related vouchers** including supporting documents should be done in the respective project folder(s) with the most recent voucher and the highest ascending voucher number on top by the following criteria:

1. Project expense and income with separators by donor BL (or ASB BL if applicable; In case of re-allocation vouchers make a copy, file the original in the donor project folder and the copy in the office project. In case of re-allocation vouchers make a copy, file it in both projects and write on the copy where the original is filed.
  - Applicable for all vouchers on which budget lines are shown
2. Income received from donor in HQ or CO in folder(s) with separators by PA
  - Applicable for all vouchers on which personal accounts of donors are shown
3. Instalments paid to partners from HQ or CO in folder(s) with separators by PA
  - Applicable for all vouchers on which personal accounts of partners are shown
4. Instalments of funds paid from HQ to CO in folder(s) with separator 130xx (applicable transit account CGN – CO)
5. For transits of funds from CO to HQ the same filing procedure applies.



- Applicable for vouchers on which 130xx is shown

The filing of hardcopies of **account related vouchers** including supporting documents and relevant documents should be done in the respective bank or cash account folder(s) with the most recent voucher and the highest ascending voucher number on top. This applies to:

1. Internal transfers within CO:
  - a. Cash withdrawals and deposits
  - b. Bank and cash conversions
  - c. Bank and cash transfers
2. Exchange rate calculations

The filing of hardcopies of **other vouchers** including supporting documents and relevant documents should be done in separate folder(s) with the most recent voucher and the highest ascending voucher number on top.

This applies to all vouchers which are not project or account related.

#### 4.8. Bank Payments

When the CO requires a new bank account, HQ has to authorize it. In field, the Country Director and AFM must authorize the opening of a bank account, so that the following is defined:

- a. Type of account
- b. Currency of the account, which can be in local currency, USD or EUR
- c. Name of the account

To open up a new bank account, only responsible person in the registration of the office in respective country has the authority to sign application forms from the bank. And at the same time, s/he will be one of the signatories to that bank account. Bank account contracts must be in the name how the CO is registered in the country.

The Finance and Admin department will send the information to HQ once they open the new bank account.

Finance HQ creates the account in Fundtrac and makes it available for the CO for booking in FundtracLight.

Closing of a bank account must also be authorized by the Country Director and the AFM. The following must be taken into consideration:

- a. All cheques have been cashed and there are no floating checks.
- b. There is a confirmation of balances at the closing date issued by the bank.
- c. The available balance has been transferred to the general ASB account and its balance is zero.

#### Expenditures paid by Cheques

Purchase amount to be paid by cheques will be defined by COUNTRY Representative and AFM will be based on common sense and local legislation.

#### Safeguard cheques

The checkbooks will be under the custody and responsibility of the Finance and Admin Department, who will ensure the safety and integrity of the same. Checkbooks should be kept in

a safe at night, weekends, or holidays. During the workday, they can remain in a locked desk or cabinet.

### Entries in FundtracLight

Bank Payments will be entered to FundtracLight only when payment is realized in the bank account. To be updated to the closest possible date, we need to request daily, weekly, monthly (depending on the country) bank statements from the bank and according to the bank statement we will be able to update our FundtracLight database. At the end of the month, after the bank reconciliation, we can upload/import the database to Fundtrac. Once the payment is realized in the bank and is entered to FundtracLight and scanned, then the document can be filed in project folders, namely: according to ASB BLs (office project), according to donor BLs (donor project).

### Balance Control and Reconciliation

To ensure enough and available amount in the bank accounts and fulfillment with the outstanding payment obligations, considering the minimum balance required by the bank in each of the bank accounts.

**The daily record in the bank FundtracLight cash books is of strict compliance, so that the available balance can be known always.**

As part of the monthly accounting closing, a bank reconciliation of each account and Fundtrac print-out must be prepared, attaching the statement of account issued by the bank, this reconciliation must be prepared by the Finance Officer and reviewed by the Finance Manager, requiring the signature of both in the reconciliation template.

### Cash Payments

Maximum amounts for paying in cash will be determined by local applicable laws, or it will be determined based on the agreement between HQ and CO (depending on the context and current situation in CO).

The Finance and Admin department will send below information to HQ once they need new cash account:

	Description	Currency	Fund	Maximum amount for paying in cash
Cash	MGA20	USD		To be determined/agreed
	MGA21	EUR		To be determined/agreed

Finance HQ creates the account in Fundtrac and makes it available for the CO for booking in FundtracLight.

The payment to the suppliers should be prioritized by cheque or bank transfer instead of cash.

### Entries in FundtracLight

Cash Payments will be entered to FundtracLight as they occur. To be updated on the cash balance, we need to enter cash payments immediately as the occur/are paid out. At the end of the month, after the cash reconciliation, we can upload/import the database to Fundtrac. Once the payment is paid out and is entered to FundtracLight and scanned, then the document can be

filed in project folders, namely: according to FAM BLs (office project), according to donor BLs (donor project).

#### Balance Control and Reconciliation

To ensure enough and available amount in petty cash and fulfillment with the outstanding payment obligations, taking into account the maximum balance allowed to be maintained and paid from petty cash.

**The daily record in the cash FundtraLight cash books is of strict compliance, so that the available balance can be known always.**

As part of the monthly accounting closing, a cash reconciliation of each account and Fundtrac print-out must be prepared. This reconciliation must be prepared by the Finance Officer and reviewed by the AFM, requiring the signature of both in the reconciliation template.

#### 4.9. Eligibility

Costs included in the agreed project budget that are directly related to the effective and cost efficient delivery of project objectives may, as a general rule, be considered as eligible.

Costs that occur outside the period of the Project agreement are not eligible with the exception of audit and evaluation costs that are previously agreed in writing with ASB/donor.

Other due costs which occurred within project duration that will be paid after project duration have to be booked as accruals.

Costs incurred before beginning of project period which are directly linked to the preparation of project activities (excluding office support costs) are eligible with prior approval by ASB/donor. These costs shall only be borne by the funds provided by ASB if the Project agreement, and the Proposed Budget (including these costs) enter into force.

ASB treats costs as eligible, or ineligible, not only in terms of cost efficiency. Other ASB considerations include ethical considerations based on the humanitarian principles and ethical good conduct. Any costs that may be considered excessive or to bring preference or favor to any individual, whether within an organization or with any individual or entity that an organization may enter into a financial transaction with, will be subject to scrutiny.

ASB and its offices are required to uphold the principles of fair dealings and to uphold the interests of both beneficiaries and individuals that contribute to funds used, whether through taxes or donations, in all transactions and financial dealings.

If a partner is unsure about the eligibility of a cost, they should contact ASB for guidance.

#### Eligible costs

**Fees and salaries:** Fees and salaries shall be paid on the grounds of payrolls. A labor contract shall be drawn up and time sheet shall be kept for each worker whose remuneration is paid on a monthly basis.

**Business trips and per diem allowance:** Business trips shall be directly connected with the grant-related activities. In traveling by air, economic class shall be normally required.

Justified travel expenses, including transport, hotel accommodation, per diem expenses, shall be accepted and confirmed by a receipt. All business trips shall be confirmed by business trip warrants, if possible.

**Office rent and utilities:** Justified expenses on lease of premises and other related expenses such as payment for electricity and water supply shall be accepted. The grounds for covering expenses on lease of premises shall be a lease agreement and payment document (payment order or receipt); the documents confirming payments for utilities include invoices and payment document.

**Materials and equipment:** In all cases where equipment or service need to be purchased (it is defined by law/internal FAM procurement rules/donor requirements), prior consent of the FAM is required. Expenses on delivery of equipment and materials are normally accepted.

The financial justifying documents for supplied materials and equipment include: invoices and payment documents (payment orders or receipts).

**Communication facilities and mail:** Expenses related to payments for telephone services, local and long-distance calls, fax and telex messages, cables and other similar expenses related to the activity for implementation of the project shall be accepted. The justifying documents for expenses related communication facilities and mailing: invoices and payment documents (payment orders or receipts).

**Contractor's services:** Expenses connected with contractor's services are payments for services of temporary personnel, translators, for rented or leased equipment, fees to auditor's services, lawyer's services. The justifying documents for expenses connected with contractor's services must include a written contract between the parties, report on performance of obligations (Terms of Reference), with a list of rendered services, basis for calculation of the amount of payment (price per hour, per day, per unit, etc.) and payment document. Officials and personnel of grant-receiving organization shall not be paid for contractor's services. All payments for services of officials and personnel shall be provided within the scope of the budget category "Wages and Salaries".

**Fees and remuneration for consultants:** Documents confirming payments to consultants shall include written agreement between the parties, report on performance of contractual obligations and payment document confirming the payment. Officials and personnel of grant receiving organization shall not receive fees. All payments for services of officials and personnel shall be provided within the scope of the budget category "Wages and Salaries".

**Printing works and publications:** Documents confirming payments for printing works and publication of materials consists of a written contract between the parties, invoice and payment document (payment order or receipt). If donor funds are used to pay the cost of printing works or publication of materials offered for sale, ASB/partner shall report the proceeds from sale and/or received author's royalties. All revenues shall be considered as program income and shall be reinvested in the project, or returned to the donor. Besides, the publications must follow visibility guidelines, bearing logos of ASB and the donor organization that funds the program. Before distributing a press-release, ASB/partner should agree its content with the donor. Copies of press releases must be attached to narrative reports.

**Conferences:** Expenses on meals in connection with holding conferences shall be confirmed by receipts, attendance list and Minutes of meeting if applicable.

**Reference materials:** Expenses on reference materials include subscription expenses, costs related to copyrights.

**Expenses on banking services:** Bank charges shall be accepted, if required for carrying out the project-related activity. They are justified with the bank statement.

#### Non-eligible costs

- Activity outside the scope of the approved aim and objectives of the project budget;
- Expenses incurred prior to, or after the official project implementation period;
- Shows, entertainments, public events and related expenses, including board, hotel accommodation, rent, transport expenses and tips;
- Business, or higher, class air travel;
- Charity contributions;
- Gifts, tips, penalties, alcoholic beverages and tobacco products;
- Outstanding debts and related expenses on debts recovery and legal costs;
- Penalties and sanctions as a result of violation of local laws and regulations (e.g. speeding fine);
- Advance payments except if they are based on a relevant agreement;
- Interest owed;
- Interest/penalty payments (e.g. from tax authority);
- Credits to third parties;
- Items already financed in another project (“double-funding”);
- Per diem payments or fees of consultants exceeding the applied maximal rates per day.

## 4.10. Exchange Rate Policy

### Internal Calculation for Booking

ASB has defined EUR as main currency in its finance system. As result of this all financial transactions have to have an exchange rate to the EUR. This means that every amount in every currency has to be recorded with an exchange rate calculated on the basis of its value against 1.00 EUR. This policy applies to all financial transactions (cash, non-cash and accruals). Donor given exchange rates have to be used for reporting purposes only and NOT for accounting entries. FAM requires all its Country offices (COs) to run accounts either by FIFO-Method (First-In- First-Out) or by weighted exchange rate method, unless the fixed EUR exchange rate is given (BAM, XOF). The FIFO-Method requires a valid exchange rate for every incoming transaction. The exchange rates for all outgoing payments will be automatically calculated by the accounting software. Incoming payments can be separated in two categories:

1. those including the EUR exchange rate (usually ASB internal transfers from HQ to CO)  
and
2. those without a given EUR exchange rate (such donor payments in non-EUR currencies). The way of gaining the information needed is described further below.

## Weighted exchange rate method

### **General rules for usage of weighted exchange rate:**

- a. The incoming payment which causes a new weighted exchange rate calculation has its own individual exchange rate according to which it needs to be booked.
- b. The next transaction after an incoming payment which causes a new weighted exchange rate calculation (most likely bank charges) has to be recorded with the new weighted exchange rate.
- c. Until receipt of a payment which causes a new weighted exchange rate calculation the last calculated weighted exchange rate is valid.

### **When and how to calculate a new weighted exchange rate:**

1. The account is maintained in any currency except EUR, but has not fixed exchange rate against EUR.
2. The transactions causing a new calculation are always incoming payments (cheque or cash deposit or incoming bank transfer), such as:
  - a. Receipt of HQ bank transfer;  
=> The exchange rate has to be calculated by EUR amount transferred from HQ and amount received in non-EUR-currency. Include in this calculation **potentially deducted bank charges of correspondent bank and/or receiving bank.**
  - b. Receipt of internal transfer within one or more country offices;  
=> The exchange rate is available from the account disbursing the funds or has to be calculated as described under '1'.
  - c. Receipt of funds from external (non ASB) sources such as donors and suppliers.

Examples for the latter are re-payments of security deposits or credit vouchers.

=> There are three options for this calculation:

1. Oanda currency converter (<http://www.oanda.com/currency/converter/>):

- a. Select EUR in the column 'Currency I Have:'
- b. Select the currency in which the account is maintained in the column 'Currency I Want:'
- c. Stay with the default rate: 'INTERBANK +/- 0%'
- d. Select the day of the transaction to be recorded (date of the incoming payment on the bank statement or date of cash receipt).
  - a. Find the exchange rate of the respective date of the transaction
  - b. Use the average or middle rate if available on the webpage. If it is not available, please calculate yourself from buying and selling rates the average rate.

2. Use the bank rate if provided by the bank where we keep our account. In this case the bank has to provide a document or countersign a document prepared by us, unless the exchange rate is displayed on bank statement.

=> The decision which option the country office will use has to be taken once and implemented for all cases from the date of decision. The result has to be included in a file note and submitted to HQ.

3. There are incoming payments in which ASB is not requesting calculation of a new weighted exchange rate. For these exceptions the last calculated weighted exchange rate is valid:
- Reimbursements of ASB staff and consultants for e.g. phone calls or private usage of cars;
  - re-payments of advances and loans by ASB staff and consultants
  - Interest earned on non-EUR bank accounts.

### First in, First Out (FIFO) method

"FIFO" stands for first-in, first-out, meaning that the oldest inventory items are recorded as sold first but do not necessarily mean that the exact oldest physical object has been tracked and sold. In other words, the cost associated with the inventory that was purchased first is the cost expensed first. With FIFO, the cost of inventory reported on the balance sheet represents the cost of the inventory most recently purchased.

We use FIFO method for our non-EUR cash accounts and the calculation is done by FT automatically, what we need to do is only to insert the exchange rate in FTL for the income transaction.

#### **General rules for usage of FIFO method for exchange rate:**

- The cash account is maintained in any currency except EUR, but has not fixed exchange rate against EUR.
- All incoming payments require the entry of an exchange rate in FundtracLight (cash transfer, cash withdrawal or reimbursement). This exchange rate can be obtained in the same way as described for weighted exchange rate above.

### Exchange rates for accrued expenses

Accrued expenses to be booked in Fundtrac will be in most of the cases partner costs based on partner financial reports (which will be described in detail below). Additionally, it can be accrual related to suppliers on PAs or CPAs.

The main issue is that the partner reports are covering a longer period (one month), in which more than one instalment can be paid to the respective partner. Also the partner might have an unspent balance from previous instalments. These circumstances result in the question which exchange rate to apply for expenses of the reporting period.

According to donor requirements we might have to report different from the example above. This might be caused by donor given exchange rates (like INFOREUR) or donor reports due in a third currency (non EUR and not according to our bank and cash accounts).

### Reporting exchange rates for donors/partners

#### **Weighted average exchange rate for partner expenses**

According to the exchange rate calculation sheet.

### INFOREUR rate for partner expenses

For most of the project with the donor European Commission (EC) the complete reporting has to be done according to the donor given rate which is called INFOREUR ([http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm)). The



rate is published by the EC on a monthly basis in advance (e.g. beginning of February 2018 for the month of February 2018).

In this case to avoid double calculation of exchange rates for partner financial reporting the INFOEUR can be directly used for accounting as well as for reporting. This applies only for partner expenses but NEVER for ASB incurred expenses and only if the INFOEUR is referred to in the partnership agreement with the respective partner(s).

Check the general and special conditions of the grant contract and consult your local Delegation of the European Union or the desk in Brussels in order to confirm that this kind of financial reporting is allowed.

#### Third currency rate for partner expenses

In case a donor requests us to report in its own currency which is not EUR and not the local currency in which the CO maintains its accounts all transactions need to be converted in the currency requested.

This can be done by using the cross rate like displayed in the example below. The/ advantage of calculation the exchange rate between EUR and the requested donor currency is that every transaction in Fundtrac, FundtraLight and financial partner reports has a EUR value and thus can be converted as requested.

In case of more than one instalment please combine the method 'weighted average exchange rate for partner expenses' with the cross rate calculation.

#### 4.11. Partner's Financial Reporting

Two types of reports, narrative and financial reports shall be submitted by the partner to ASB on a regular basis in compliance with the scheme of implementation of the project. Delayed or incomplete submission of any of the required reports may entail a delay in further payments under the Partnership Agreement. Failure to submit the required reports may entail termination of the funding of the project. Partner shall notify ASB in writing about any delays in submission of the before mentioned reports.

At any time during the period of the project implementation, Partner may request FAM to review the schedule of payments and reporting requirements so that the schedule reflects more accurately the plan of work of organization. Partner shall timely notify ASB about any significant events which may have a negative or positive effect on implementation of the program.

The rules and regulations of the respective (back) donor have to be followed in any case.

The specifics of the contract between FAM and the implementing partner or CO specific financial partner guidelines which are annexed to the contract are the minimum standards for setting up contracts with implementing partners and for the financial reports are as follows:

1. Financial reports – to be submitted to ASB until 15th working day of the month for the previous month:
  - a. in a previously agreed format (in case of a back donor preferably the financial reporting template of the back donor is to be used),
  - b. with clear transaction memos for each voucher,



- c. including all duly signed vouchers as scanned PDF documents including necessary supporting documents and with file name equal to voucher number,
  - d. including a forecast for the next reporting period and an actual funds balance with the partner on the last day of the reporting period.
2. Reporting currency to be used for financial reporting has to be defined.
  3. Exchange rate calculation method for financial reporting has to be defined.
  4. The accepted variance in percent has to be defined in regards to over- and underspending per budget line or per budget chapter (a group of budget lines). In case of a back donor the rules of that donor have to be followed.
  5. There should not be shared budget lines for expenses of more than one partner and also not shared budget lines with partner(s) and ASB.
  6. An agreement regarding the partners share of administrative costs or overhead costs granted by the back donor has to be defined (see section *Sharing of Administrative Costs between Partner Organizations*).
  7. The VAT status for the project expense has to be clarified.
  8. An instalment plan has to be developed which is linked to agreed fixed dates or to the action plan in combination of the actual progress of activities.

#### 4.12. Narrative Report

In the process of stage-by-stage implementation of project, the partner is required to regularly submit to the ASB a project implementation report signed by Program Manager, as well as project implementation schedule for the next reporting period. The frequency of submission of such reports to the ASB is subject to the contract. Upon completion of each stage of project implementation, Partner shall send to the address of the ASB an interim narrative report on implementation of that stage of project upon completion of the entire project.

Partner shall send to the address of the ASB a final narrative report on program implementation. The report shall include the title of project, Partnership Agreement number, time framework of reporting period and analysis of the work done for the reporting period. It should also include a list of implemented measures; description of particular work carried out by the project personnel, as well as produced results. Copies of all printed materials published as a result of implementation of the project funded by the ASB/donor shall be attached to the report. The partner has to ensure that all materials produced in terms of ASB/donor project have the following disclaimer: The contents of this article/video report/story are the sole responsibility of the partner and cannot be taken as to reflect the views of ASB. The partner is required to write and distribute a press-release before any public event. The press release must bear logos of ASB and the donor organization that funds the program. Before distributing a press-release the partner should agree its content with ASB. Copies of press releases must be attached to narrative reports.

Report on project implementation shall be written clearly and logically.

### 4.13. Financial Report

In the following sections the preparation of the financial report is explained.

#### Templates

It is strongly advised to use for partner voucher entries the financial reporting Excel format of the back donor. This will ease the preparation of the financial reports to that donor.

However, any template can serve the purpose a financial recording tool as long as all necessary data is included. In case the partner does have a financial accounting system in place the reporting has to be done in Excel but should be supported by reports printed from the partner's finance system.

For more complex partner projects, the creation of pivot tables for the sum of monthly totals per budget line is recommended.

#### Guidelines

Due to different settings in ASB's COs, legal requirements in the countries, ASB and its partners are working in and depending on the financial and administrative capacities of ASB's partner organization, ASB HQ does not define one standard of guidelines for the implementing partners. ASB - Iraq has established financial guidelines for the partners in Iraq country (SOP for financial Management by partners).

### 4.14. Treatment of Administrative Costs

#### Definition of Administrative Costs

Administrative Costs can be claimed in the donor-budget as lump sum costs if provided in the budget. The amount depends on the actual eligible costs. These are approved by the donor in the confirmation of financial interim- and final project reports if available.

Administrative Costs are distinguished from normal lump sum costs which can be charged to donor-projects in the way that the normal lump sums can be booked fully and independently from other costs (example EUR 200 for bank charges), whereas the amount of Administrative Costs depends on the overall amount of eligible costs (including the lump sums).

Also unused funds of a lump sum grant by a donor remaining or not being reclaimed at the end of a project is treated as Administrative Costs.

The ASB always treats Administrative Costs as income which can be booked to budget items in Funds Allocation. It is not provided for actual expenditures to be booked to the budget line of Administrative Costs.

#### Planning with Administrative Costs

The country office when awarded the grant and/or implements the project cannot claim the administration cost as additional funding.

Administrative Costs are always reported to the HQ and registered there as income in Funds Allocation. A balancing with the own contribution within the same project is also not permitted. A promise of Administrative Costs towards partner organizations is not permissible. Such a promise would increase the country budget without the approval of the head of ASB Foreign Aid. The question of allocating the Administrative Costs is to be cleared up and arranged with the

head of ASB Foreign Aid as part of the project planning with partner organizations. See also the section 'Sharing of Administrative Costs between Partner Organizations'.

In case of unused remaining funds, it needs to be considered that the amount of the stays unknown until the end of the project. Thus, there is no planning for this case. Only in one case the Administrative Costs of ADH are not planned and called at:

The main donor of the project co-financed with ADH-funds has approved Administrative Costs for the ASB in the budget.

In the case of co-financed or office-projects, ADH Administrative Costs are planned and called at. For this, a separate donor-project needs to be created and linked with the respective ASB project. This project then consists exclusively of Administrative Costs and of again out of ADH funds of the same amount. For example, the equity ratio of an AA project (GMB1301 and GMB1301-001) is financed by ADH-funds – in this case, the donor-project GMB1301-004 is to be created and linked.

#### Booking of Administrative Costs

Administrative Costs are always booked in the ASB HQ. Two vouchers must be issued:

- one to display the expense in the donor-project and
- one to display the gain in Funds Allocation project ADMXXXX.

Administrative Costs are always to be booked in the currency, in which the money is collected from the donor. Therefore, the exchange rate with which the Administrative Costs are to be booked needs to be stated at the collection in the country office. The exchange rate is a mixed rate comprised of the in-payments of the donor for the report-period in question.

There is no differentiation between budgeted Administrative Costs and remaining amounts of lump sum donations at the booking.

#### Sharing of Administrative Costs between Partner Organizations

A sharing of Administrative Costs with a project partner in one project has to be regulated contractually. For this there are several cases:

1. **Description:** in the contract with the donor the ASB and the project partner as well as the amount of the respective shares of Administrative Costs are named. This is a theoretical case, as the donors normally set the Administrative Costs for the entire project as a percentage only and not already divided.

**Regulation:** No further regulation is necessary as long as there exists a regulation concerning additional and reduced expenditures.

**Booking:** The booking of Administrative Costs takes place after the end of the project according to the costs chargeable for the ASB.

The booking of the Administrative Costs of the partner only needs to take place if the ASB functions as "lead", that is carries the responsibility for the report of the whole project.

2. **Description:** in the contract with the donor the ASB and the project partner are named, but not the amount of the respective shares of Administrative Costs. This is the norm when project components or –regions are split up.

**Regulation:** A written regulation concerning the calculation of Administrative Costs and also concerning additional and reduced expenditures must be agreed upon. The simplest and fairest

regulation is the sharing according to the proportions of chargeable costs under the terms of the final report. This regulation also includes automatically possible additional or reduced expenditures by individual partners or by ASB.

**Booking:** The booking of Administrative Costs takes place after the end of the project according to the written agreement.

The booking of the Administrative Costs of the partner only needs to take place if the ASB functions as “lead”, that is carries the responsibility for the report of the whole project.

3. **Description:** the ASB – functioning as “lead” - is the only contract partner of the donor.

It is possible that the project partner appears as beneficiary of the donor-contract. The (partial) forwarding of Administrative Costs to the project partner can also be regulated in the donor-contract (e.g. the EVZ foundation which determines an administration cost lump sum for the project partner in the project country).

**Regulation:** If there is no regulation in the donor contract, a regulation concerning the calculation of Administrative Costs and also concerning additional and reduced expenditures must be agreed upon.

**Booking:** The booking of Administrative Costs takes place after the end of the project, either completely for the benefit of the FA project ADMXXXX or partially/completely for the benefit of the project partner.

4. **Description:** the project partner – functioning as “lead” – is the only contract partner of the donor. The FAM reports only to the project partner.

**Regulation:** A written regulation concerning the calculation of Administrative Costs and also concerning additional and reduced expenditures must be agreed upon. The simplest and fairest regulation is the sharing according to the proportions of chargeable costs under the terms of the final report. This regulation also includes automatically possible additional or reduced expenditures by individual partners or by ASB.

**Booking:** The booking of Administrative Costs takes place after the end of the project according to the written agreement.

## 5. Reporting and Monitoring

The following section outlines principles and expectations for effective financial reporting and monitoring. Reporting and monitoring are systematic and continuous collection, analysis and use of information for management control and decision-making. The information collected must be communicated, in the right form, to the right person, at the right time. Mechanisms for communication must be established to ensure that the necessary information is generated and utilized in a timely and effective manner.

The budget should be monitored and reviewed regularly. At a minimum this should be at the end of each month, quarterly and at the middle and end of the project timeframe to ensure proper oversight of project financial performance.

### 5.1. External reporting and monitoring

#### **Project Progress Reports**

Project Progress Reports allow management staff to follow up on the budget and are designed specifically to facilitate management control. Different reports are designed for the various levels of management. Following rules are taken into consideration:

- Reports fit in organizational structure,
- Reports are done periodically in standard format,
- Reports highlight areas in need of attention,
- Simple and understandable, contain only essential information,
- Report actual to budget,
- Measure performance in achieving goals and objectives.

#### **Inception Reports**

The Inception Report is a planning tool, defining what has to be done and when. Once the Inception Report is approved by the donor, ASB/partner is required to deliver what is stipulated in the inception report.

#### **Interim Reports**

The interim report serves as a record of progress in implementation of activities, delivery of outputs, realization of results and achievement of objectives, stipulated in the inception report (if inception report was required). Interim reports are normally linked to payment requests to the donor (requesting the next instalment) and therefore include a detailed financial report.

#### **Final Reports**

The final report is designed as a comprehensive record of progress in implementation of activities, delivery of outputs, realization of results and achievement of objectives. Final reports are normally linked to payment requests to the donor (requesting the final instalment). Therefore, the financial part of the report gives a complete account of all income and expenditures of the operation, the project final financial statements.

If an external audit is required, the audit report should be annexed to the final report.

The structure of the final report must correspond to the inception and interim report.

## Modification Requests

Requests for modification usually are extensions of the duration of the donor contract; budget modifications; approval for use of accrued interest for project purposes; use of contingency reserve; change of the address; change of person in charge for communication; change of partner/s; force majeure, etc. Modification request of any kind (notification letter, request for Addendum, note for file, etc.) must be prepared during project implementation and according to the specific guidelines of each donor. They come into force and can be implemented only after official approval from the donor (date of the signature), if not otherwise stipulated or agreed.

## Financial reporting to government and other authorities

Financial reports to relevant government and local authorities depend on the rules and legislative of the country in which FAM has the office. Context of each country is different, as well as level on which, to whom and how we should report. Initial step is to get ourselves Country Representative familiar with the regulations, establish the contacts, obtain relevant information and templates in order to respect and ensure proper financial reporting. Yearly balance sheet and income statement for HQ are produced and are available at any point for any CO which might need it.

## 5.2. Internal Reporting and monitoring

### Financial Forecasts, Cash flow and Liquidity

#### Planning

Forecasts are important for planning and ensuring that enough funds are available for activities. Forecasts should be conducted regularly in consideration of work plans and fund instalment schedules. Forecasts also help monitor expenditure and to anticipate variances.

Good project financial forecasting will require good communication between relevant project and finance personnel. Each CO needs to plan and track CO liquidity by project. Each CO needs to establish and maintain a document for monitoring project liquidity.

This document should:

- a. Record expected and actual ASB contributions in CO and CGN, donor contributions in CGN and CO and expenditure in CO and CGN.
- b. Be used to calculate instalment requests from CGN.
- c. Be updated when each FAM or donor contribution is received and instalments are transferred from CGN.

#### Instalment Requests

Each CO needs to ensure adequate liquidity to fund CO expenses including instalments to be paid to implementing partners from the CO. COs and PKs need to agree the following regarding instalment requests:

- a. Format,
- b. Frequency,
- c. Internal authorisations required and monetary limits.

CO then need to request funds in accordance with the criteria mentioned above using their planning tool to ensure funds are requested in line with different project requirements and funding.

#### (Final) Project Liquidity Reconciliation

Each CO needs to manage and reconcile liquidity by project to ensure all projects are reconciled to 0,00€ once they are closed and all Cost centres are 0,00€ (cost centres booked by HQ only). At a minimum, this process must be completed at the end of each project. Ideally it should be completed more frequently, especially on longer projects. (e.g. end of each year).

The cashbook files are uploaded to and imported in FT from a shared folder.

The restricted country folders enable ASB to secure the confidential and sensitive data. Only ASB HQ staff is authorised to access all folders while COs are restricted to their area of responsibility. These folders are the final archive folders for all scanned vouchers (Fundtrac and FundtraLight). The ASP service provider (CIWI) maintains three mirrored servers which store every file three times as additional security measure.



## 6. Control Mechanisms and Security

### 6.1. Internal Control Mechanisms and Security

#### Existing ASB Internal Policies

There are several internal policies and guide lines in practice within the organization to have a proper control mechanism and security.

1. **General ASB Foreign Aid SOPs**
2. **ASB Antifraud and Anticorruption Policy**
3. **ASB Whistleblowing Policy**
4. **ASB Procurement guidelines**
5. **Corporate Design Guidelines**
6. **Social-media-guidelines**
7. **ASB Visibility and communication policy**
8. **Code of Conduct for staff.**

#### Division of Duties and Responsibilities

Internal accounting control consists of the ASB's plan, procedures and records to assure the reliability of financial reporting as well as safeguard of the assets of the organization and of the donors.

An effective internal control structure includes a series of checks-and-balances required for the appropriate recording and authorization of transactions and ensures that access to assets are limited to authorized personnel. Each transaction should be divided into component tasks completed by different staff members in order to increase the likelihood of detecting unintentional errors and prevent misappropriation of ASB's and donor's assets.

As for example, the person who approves vouchers for payment should not prepare the vouchers. Also the person preparing cheques should not sign them.

The set-up of the staff in the CO determines the division of duties. CO cannot comply to the examples above if there are only two staff members (typical when an office is opened there is only a CD and one person dealing with finance and admin)? But once an office is in place, the segregation has to be defined and adjusted if positions are introduced or reduced.

**The four-eyes-principle has to be followed in any case.**

Regarding the authorization of ASB staff, for authorizing expense or signing contracts the General ASB Foreign Aid SOPs in the latest version have to be followed in regards to the amounts.

#### Security in Fundtrac

Every CO has its own authorization codes in Fundtrac. These codes enable assigned users to access relevant data in Fundtrac. At the same time, they restrict users from accessing other COs data. These codes are assigned by Finance HQ to every Fundtrac user and are as follows:

#### Signatory rights

All Authorizations and signatory rights allocated per job position.

**Internal Payment authorizations:** To be made by staff to the agreed limits as stipulated below.

1. Country Directors will authorize a single expenditure and payment up to and including EUR 100,000
2. Country Director and AFM can jointly authorize a single expenditure and payment up to and including EUR 100,000. This payment authority will ONLY be availed if the Country Director delegates the authority in his/her absence.
3. **ASB HQ has to approve single expenditure and payment of more than EUR 100.000,00.** This clause applies for any set-up of payment authorization in every CO.
4. The authority delegated should be documented in hard copy for future reference.  
Please refer to the Authorization Grid in the Annex.

#### Authorized bank signatories

A minimum of two signatories is mandatory for any bank related actions and withdrawals and is subject to prior approval in line with the payment authorizations stated herein. The signatories of bank account are as:

1. **Level of signature right**
2. **Position Signature**

FIRST Legal Representative Common with any other authorized employee (Program Manager)

FIRST FAM Common with any other authorized employee (Program Manager)

#### Notes:

- a. The above authorizations relate to cash requests, procurement procedures, bank payment vouchers, advance disbursements purchase orders, service agreements and contracts to the above stated authorization limits,
- b. Payment authorizations must be in line with latest version of ASB Standard Operating Procedures, Procurement guidelines, Donor regulations and applicable respective Country law,
- c. All requests for payment are to be countersigned by CO Finance department,
- d. In addition to Country Director, requests for payment over EUR 100,000 are to be approved by ASB HQ.

## 6.2. General Payment Procedures

### Payment Vouchers

- a. All payment must be supported by vouchers in the prescribed form and receipts must be obtained for all cash payments at the time of payment.
- b. Preparation of Payment Vouchers
- c. The following should be observed:
- d. All payment vouchers must be numbered with the cheque number.
- e. All payment vouchers should be filed in numerical order immediately after payment has been made. Under no circumstances should vouchers be left unfilled in the office.
- f. Payment vouchers should be prepared in ink, ballpoint pen or should be printed.
- g. Particulars Required on Payment Vouchers

- h. All payment vouchers should contain full details to explain the reason for the payment, and to show that the amount is correct and properly chargeable to the specified heading
- i. Payment vouchers must show some reference to the authority for the expenditure (e.g. supporting documents, minute, reference, contract number).

#### Documents in Support of Payment Vouchers

- a. All documents in support of a payment voucher including invoices and specific authorities must be attached to payment voucher
- b. Invoices and Purchase Orders to Support Payment
- c. The following should be observed:
  - c.1. Where applicable, vouchers must be fully supported by original invoices. Statements of accounts should not be accepted for payment purposes.
  - c.2. Should the original invoice be mislaid, a duplicate must be obtained and certified to the effect that the original cannot be traced and that payment thereof has not previously been made.
  - c.3. All payment vouchers, in respect of purchases must have the specified copy of Local Purchase Order, certificate of completion (in case of works) and inspection report complete with copies of delivery notes, where applicable, in case of supplies & services.
  - c.4. In cases where purchases are made for cash, the receipt or cash sales slip must be attached to the payment voucher

#### Signature on Payment Vouchers

- a. The originals of Payment Vouchers must be signed by the person preparing the voucher, authorized in full by the responsible officer, countersigned for payment by the FAM.
- b. The signatures must be in permanent ink or ballpoint pen.
- c. The signature of the responsible officer on a payment voucher certifies that the voucher is correct in every respect. In particular, the person certifying the voucher is responsible for ensuring that:
  - c.1. The services specified have been have been duly performed.
  - c.2. The rates charged are either according to contract or approved scales or fair and reasonable.
  - c.3. The amount is correctly chargeable to the allocation code quoted on the voucher.
  - c.4. The computation and castings have been verified and are arithmetically correct.
  - c.5. The person named in the voucher is entitled to receive payment
  - c.6. All proper deductions including the repayments of advances or other liabilities have been duly made.
  - c.7. The payment complies with Financial Regulations and any other laid down procedures

#### Incorrect Payments

- a. No officer should sign a payment voucher or incur any charge unless he is satisfied that there are sufficient budgeted funds available to meet the proposed payment. If the need had not been foreseen at the time of budgeting, then a budget reallocation (foregoing an item or more in the budget to cater for the new need) or a supplementary budget must be made.

- b. Any Officer making, allowing or directing any disbursement without proper authority should be held personally responsible for the amount, and any officer whose duties require him to render accounts should similarly be held personally responsible for any inaccuracies in those accounts.
- c. All material alterations in payments vouchers must be initialed by the certifying responsible officer.
- d. The counter signatory for payment should satisfy himself as far as possible that proper authority exists for payment, and he/she should ensure that authority is quoted on the voucher itself.

### 6.3. Payments by Cheque

- a. All payments must as far as possible be paid by crossed cheques drawn on the ASB's bank Account.
- b. All payments to local suppliers, Government departments and other institutions should be by crossed cheques, made payable in the name of the payee.
- c. Cheques must be drawn in strict numerical order.
- d. Cheques should be made out to the payee exactly as per the payment voucher.
- e. All cheques drawn must be listed on a cheque schedule/ confirmation letter in quadruplicate (4 copies) in cheque number order. The cheque schedule must show exactly what is written on the cheque. Any cancelled cheques must also be shown on the schedules.
- f. Procedure for drawing cheques:
  - a. All vouchers for cheques to be drawn to be totaled by the officer to arrive at the "vouchers total".
  - b. Cheques are written for each voucher (or group of vouchers) and the cheque amounts are then totaled by the drawing officer, to ensure that they agree to (a).
  - c. Cheque schedule/confirmation letter is typed, and agreed total as at (a) and (b) inserted as the schedule total.
  - d. Cheque schedule/confirmation letter is cross-checked by the drawing officer to the cheques, and added up to ensure that its total does agree to (a) and (b) totals.

Cheque schedules/confirmation letter (Appendix example) should show:

- Name of the ASB.
- Columns for cheque number, payee, amount, signature and identity card number of person receiving cheque.
- Total amount of cheque schedule in words and a summary of the cheque numbers included on the cheque schedule.
- Bank account number on which drawn.
- Signatures of the persons signing the cheques.
- Indication of ASB seal space.
- Date of schedule.
- When a cheque schedule goes over one "page", the cumulative carried forward and brought forward totals are to be put on the schedule. The "final" page should show the total of the cheques drawn (including the brought forward totals).

- Each “page” of the schedule is to be signed by the cheque signatories.
- “white-out” amendments to any part of the cheque schedules are not permitted. Any amendments must be done by crossing through the original entry and retyping or rewriting in the corrected entry. All amendments must be initialed by the cheque signatories.
- Salaries and wages cheques should be drawn on discrete schedules, so that the total of the cheques drawn agrees to the net salaries/wages due shown on the salaries/fees summary sheets.

when signing cheques, the following should be verified:

- a. Payee on voucher/cheque stub/cheque/cheque schedule are exactly the same.
- b. Amount on voucher/cheque stub/cheque/cheque schedule are the same.
- c. Words and figures on cheque agree and date is correct.
- d. Cheque has all necessary stamps/crossings etc. on it.
- e. Correct cheque numbers are on schedule and voucher.
- f. Vouchers are properly authorized and stamped “paid”.
- g. Cheque schedule addition is correct, words and figures agree, and correct cheque numbers are entered.
- h. Ensure that vouchers/cheques/cheque lists etc. have been audited.
- i. Ensure that any prior cheque signatory/signatories has properly signed in all appropriate places.

#### 6.4. Examination of Payment Vouchers

All payment vouchers should be examined by the Finance Department, and by internal audit, to ensure that the required documentation is present, and that the payment voucher is correctly coded, arithmetically correct and that budgetary provision has been made. The examining officer should initial the payment voucher in the relevant place.

##### Lost Payment Voucher

If a payment voucher is lost, a replacement voucher must be prepared and must bear a certificate to the effect that the original has been lost, with an explanation of the circumstances & stating that payment has not been previously made. If supporting documents are lost, certified copies must be provided.

##### Payees

The following should be observed:

- a. Payments should be made only to the person/firm named on the supporting documents and the relevant payment vouchers or to their legal finances. In the latter case, authorities, such as powers of attorney, letters of administration, etc., must be presented to the certifying officer and be recorded on the vouchers or, if possible, the authority itself should be attached
- b. to the voucher.
- c. Payment vouchers should remain in the relevant files in the custody of ASB officers at all times, and should not be released to payees, or other unauthorized personnel.

### Receipts for Payment

Receipts for payment made in cash (e.g. personal emoluments and imprest payments) should be obtained at the time of payment. Receipts for crossed cheque payments should be obtained by means of a signature for the cheque on the cheque list.

Payees must identify themselves by means of an identity card or similar documents.

When payment has been made on a voucher (whether by cheque or cash), the officer who has made the payment must stamp the voucher with the word "Paid" and initial it.

### Identification of Payees

Paying officers must satisfy themselves that the person claiming the payment is the person authorized to receive the amount. The receipts must therefore identify themselves or be identified by the payees.

### Payments by Cash or by Cheque

All payments on a single payment voucher should be made either by cash or cheque(s) but not by a combination of both methods. One cheque may cover any number of payment vouchers and one payment voucher may cover any number of invoices, provided they refer to the same person or firm.

### Contracts and Agreements

In the case of payments in instalments in respect of contracts for construction work etc., each payment voucher should show the full contract price, reference to the contract, the number and amount of the instalments now to be paid, the amount of previous payments made against the contract, and a certification that the payment has been entered in the Contracts Register.

In cases where a single payment is covered by a Special authority - e.g., ASB minute reference, the authority must be quoted on the voucher.

The chief accounting officer or the person with such delegated authority shall maintain a Contracts Register in the form prescribed and all contract payments must be entered in this prior to payment.

### No Officer Sign Payment Vouchers for Payment to Himself Herself

No officer should certify and pass for payment a voucher made payable to himself/herself, unless it is in relation to his/her rights & privileges & there is another party certifying the payment.

### Payments period

All payments should be made, as much as possible, within the ASB's defined payment period.

Discount allowed on any account should be deducted and the voucher made out for the net amount. Officers may be called upon to refund any loss occasioned through the late payment of an account.

Any negligence or delay on the part of an Officer in presenting claims or in furnishing completed vouchers may result in the claim or voucher being totally or partially disallowed.

Disciplinary action should then be taken against such a person.

### Authorized Bank Account Signatories

The Board on the advice of Top Management should decide on the authorized bank account signatories. All cheques or other funds transfers to 3rd parties should require to be signed by two valid signatories.

The ASB's bankers should be informed of all approved signatories, and should be provided with specimen signatures.

Signatories cannot be changed without the express approval of the Board/Top Management

## 6.5. Safe Custody of Cash, Stamps, Accountable

### Responsibility for Provision of Facilities for Safe Custody

It is the duty of every Chief Accounting Officer, to ensure that all staff under his/her responsibility who are required to handle ASB money, stamps, official receipts, etc., are provided with proper safe custody facilities.

### Safe Custody of Cash/Stamps

ASB money in any ASB office shall be kept under lock and key in secure accommodation in charge of one officer only who should be directly responsible for it.

Responsible Officers should bank all money received intact.

No accounting officer should maintain a larger cash balance of ASB money than is actually necessary.

No accounting officer is allowed to take home with him/her for safe keeping any of the ASB monies nor keep the ASB monies anywhere other than in a safe, cash box etc. authorized and provided by the ASB for such purpose.

### Safe Custody of Accountable Documents

Cash books, official Receipt books, Cheque books, Purchase Orders, loan agreements, mortgage deeds, title deeds and other accountable documents, must be kept under lock and key at all times when not in use.

### Custody of Keys of Strong rooms, Safes

Officers holding the keys of strong rooms, safes, cash boxes or steel cabinets are personally responsible for their safekeeping. Except when officially handed over to another officer, keys must not leave their personal possession.

No strong room or safe may be opened by an officer other than the authorized "key-holder" who must remain present while it is open.

Where there is more than one "key-holder" all must remain present.

### Only ASB Money and Other Assets to Be Kept in Strong-rooms or Safes

The keeping of private money or effects in ASB safes, or strong-rooms, is forbidden. Any such money found in a strong room, safe, cash box, etc., should be brought to account as a credit, by means of a general receipt, to the Miscellaneous Income Budget Head.

ASB officers should not mention to any person the amount of cash they carry.



## Security and Maintenance of Strong Room Doors, Safes, Cash Boxes and Steel Cabinets

Responsible Officers must ensure that their strong room doors, safes, cash boxes and steel cabinets are maintained in good working order.

### Losses of or Damage to Strong-room Doors, Safes, Cash Boxes and Steel Cabinets

Losses of or damage to safes, cash boxes, strong-room doors and steel cabinets should be reported immediately to the Supervising Officer who should submit a report to the FAM with a copy to Chief Internal Auditor.

### Duplicate Keys

Duplicate keys of all strong-room doors, safes, cash boxes and steel cabinets should be held in a cash box to which only the AFM has a key, under the ASB Secretary's safekeeping.

### Lost Keys

The loss of a key of a strong room, safe or cash box should be reported immediately to the Chief Accounting Officer who should ensure that the safe is sealed in the presence of the key holder and to Police. The person responsible for losing the key may be called upon to meet replacement costs.

If it becomes necessary to break open the strong-room, safe or cash box, this should be done in the presence of the key holder, police, Chief Accounting Officer and Chief Internal Auditor, and a full list of contents made and signed by all attendees.

### Suspected Interference with Keys or Locks

If a key holder has a suspicion that the key or lock of a strong room, safe or cash box in his/her charge has been interfered with, he must remove the contents to another safe where possible and report the circumstances immediately.

In all cases where a strong room, safe, etc., key is handed over from one person to another, whether temporarily or permanently, the contents of the strong room, safe, etc., should be checked by both the incoming and outgoing officer and Handing Over Certificate signed by both officers. Both officers must be present at all times while the handing over takes place. Details of keys handed over should also be shown.

### Register of Articles in Safes

A register should be kept in a safe or strong room of any article of value kept in the safe or strong room, such as fixed deposit receipts, contracts, and insurance policies. Any person depositing or withdrawing articles of value should sign the register.

## 6.6. Petty Cash Funds

### General Policies

- All payments made out of petty cash must be made in accordance with the ASB police governing petty cash use – mainly to cater for emergencies.
- Petty Cash funds represent specified amounts of cash set aside to facilitate disbursements for relatively minor transactions and small expenditures generally that should be made in cash.

- Petty Cash/Imprest are sums advanced to ASB personnel to enable them to meet anticipated but emergency official expenditure on business.
- Petty cash payments are designed to reduce workload in acquiring and paying for small value purchases. The maximum authorization should not be more than the designated amount
- unless exceptional circumstances exist.
- The AFM is responsible for determining the necessity for establishing petty cash funds, controlling the petty cash funds outstanding, and maintaining petty cash funds at the minimum balances required for the purpose intended.
- Each petty cash fund should be the responsibility of a single person who should have access to the fund (to the extent practical).
- Cash funds must have adequate safeguards relative to the size of the fund. In general, the fund should be maintained in a locked box or cabinet with access limited to one person.
- Petty cash vouchers should be prepared in ink and signed by the person receiving the reimbursement from the fund.
- Original receipts must accompany vouchers to support expenditures, except for minor items for which receipts are not reasonably obtainable.
- An authorized individual other than the petty cash custodian must approve expenditures and advances for expenditures prior to disbursement.
- Petty cash transactions shall be recorded and supported by vouchers.
- The recipient of the petty cash should be required to sign a petty cash voucher and provide supporting documentation when claiming.
- Receipts and invoices presented to support petty cash purchases must quote the suppliers where appropriate.
- The policy with respect to payments from petty cash funds should:
  - The maximum amount payable from petty cash should be stated.
  - Two employees of the ASB must sign petty cash cheques.
  - The custodian may not sign the cheques. The custodian is responsible for the preparation and reconciliation of petty cash imprest payments.

### Petty Cash Replenishment

The petty cash fund should be reimbursed, as often as necessary, by processing a payment voucher form. Replenishment of the fund is accomplished by processing a direct claim payment voucher and supported by required documentation:

- Expenditure totals;
- The Petty Cash Reconciliation form.
- The Petty Cash Summary should contain the summary of all the payments made out of the petty cash. This should be attached to the petty cash replenishment request. The replenishment should be for an amount equal to the payments made so that at any one time the petty cash does not exceed the maximum allowable amount.
- Any claims which cannot be substantiated should not be allowed as a charge in the accounts, and any such sums should be recovered from the officer concerned.
- No imprest may be advanced to an employee where a previous imprest is still outstanding.

## 6.7. External Control Mechanisms and Security

### Audit/Expenditure verification

The expenditure verification is a sound proof that the expenses reported on the standard financial report correspond to the ASB's accounting and bookkeeping system and to underlying accounts and records.

The auditor verifies that the funds provided by the donor(s) were spent in accordance with the terms and conditions of the signed contract and that the different procedures were respected. The auditor examines whether the costs declared by the ASB are real, accurately recorded and eligible in accordance with the contract, and issues an expenditure verification report. The donor(s) should annex the Terms of Reference (ToR) of the expenditure verification.

Terms of reference show how the object in question will be defined, developed, and verified.

They should also provide a documented basis for making future decisions and for confirming or developing a common understanding of the scope among stakeholders. In order to meet these criteria, success factors/risks and constraints are fundamental.

As per standard/general form, the scope of the work of the auditor is:

- obtaining a sufficient understanding of the project and of the contract itself;
- verifying that the eligibility of expenditure claimed by the FAM in the financial report complies with the rules for accounting and record keeping of the contract. By the same token, the auditor shall reconcile the information provided in the financial report to the FAM's accounting system and records, and verify that the correct exchange rates have been used;
- verifying that the budget expressed in the financial report corresponds to the one authorized budget by the donor in phase of signature of the contract, and that any eventual amendment to the budget - both unilateral and by means of an addendum - comply with the conditions set out in the contract;
- verifying that the Beneficiary complied with the rules of procurement, nationality and origin for given expenses and, in case of non-compliance, assessing the effect on the eligibility of expenditure.

Different donors have different criteria for expenditure verification and different ToR for auditors, which is all part of the signed contract. In order to meet and fulfill all necessary donor criteria, ASB needs to get itself completely familiar with all rules and procedures under the signed contract.

As per standard/general form, please find below checklist which can help you in preparation of expenditure verification:

**Checklist for Project External Audit in CO**

Description	Comment	Yes	No
<b>Legal information</b>			
Legal registration in the country	If applicable		
Statute	If applicable		
<b>General aspects</b>			
Contract/Agreement	Including all Annexes		
Correspondence with donor			
Notes for the file			
Notification letter			
Amendments			
Partnership Agreement	With implementing partners		
Employee's files	Including hiring process		
List of assets	Inventory list of the project		
<b>Financial aspects</b>			
Financial report (expenditure)	Exactly matching the transactions in Fundtrac		
Income to the project	Income from the donor and own contribution		
Voucher files Invoices, contracts, procurement process,	Voucher files Invoices, contracts, procurement process,		
delivery notes, lists of participants, etc.	delivery notes, lists of participants, etc.		

**Recommended questions to ask yourself for audit preparation:**

1. Has all expenditure been incurred within the eligibility period set in the contract? If not, has prior approval from the donor been obtained (through the application form or direct approval)?
2. Was recoverable VAT deducted (if applicable)?
3. Are the amounts paid accurately recorded in the accounting system?
4. Are all costs only declared once?
5. Has each reported expenditure been supported by an invoice or an accounting document of equivalent probative value that are complete and accurate in accounting terms?
6. Has each expenditure been supported by a payment proof (e.g. bank account, statements, bank transfer confirmations, cash receipts)?
7. Have the costs been correctly allocated to the budget lines?
8. Has the budget by budget line been respected? If not, has the excess spending been approved by the donor?
9. Has the total budget not been exceeded by more than the flexibility allowed by the donor?
10. Is the exchange rate used for the conversion into Euro correctly applied?

11. Is there evidence that reported activities have taken place and that products and services were delivered or, are in progress to be delivered?
12. Are all costs directly related to the project and necessary for the development or implementation of the project?
13. Are the following documents available regarding salary/fee payments:
  - employment/service contract, pay slips (or similar), payment proofs, time sheets?
14. Are the job profiles/positions of the staff plausible in relation to the tasks/activities within the project?
15. If a person is working at a fixed percentage (100% or less) on the project: is a document available fixing the percentage worked on the project and is this percentage correctly applied to the actual gross employment costs?
16. If a person works on several projects, is it ensured that the total number of working hours declared does not exceed the total eligible working time of the employee (no double-financing) set in the related employment contract?
17. Are the trips that costs refer to justified by the project's activities?
18. Do the travel and accommodation costs exclusively result from trips undertaken by project staff employed by FAM?
19. Are the reported travel and accommodation costs in line with the project, national and internal rules of FAM?
20. Are the trips limited to the territory of the project area? In case of trips outside the territory of the project area, were they explicitly mentioned and justified in the approved application?
21. Are the deliverables available, identifiable and in compliance with the contract/agreement and invoices/requests? As for all other expenditure items, check if the external expertise and services were contracted in compliance with the procurement rules.
22. Is it ensured that providers of service or expertise are external to the project partnership (i.e. different from the project partner organizations and their employees)?
23. Have the purchased equipment items been initially planned in the application form? If not, has prior approval from the donor been obtained?
24. Are the equipment items physically available and used for the intended project purpose?
25. If the equipment item is only partially used for the project, is the share allocated to the project based on a fair, equitable and verifiable calculation method?
26. Has FAM applied applicable procurement rules (tender: open, restricted, negotiated, international, direct contracting, bid-at-three rule, etc.)?
27. Have the principles of transparency, non-discrimination, equal treatment and effective competition been respected?
28. Is full documentation of the procurement procedure available? It usually includes the following:
  - Initial cost estimate made by ASB to identify the applicable public procurement procedure
  - Request for offers or procurement publication/notice
  - Terms of reference
  - Offers/quotes received

- Report on assessment of bids (evaluation/selection report)
  - Information on acceptance and rejection (notification of bidders)
  - Contract including any amendments
29. Are the contracts in line with the selected offers?
  30. Has there been no artificial splitting of the contract objective/value in order to avoid procurement requirements?
  31. If a contract was amended or extended, has the change been only minor without changing the overall objective, content and economy of the tender and laid down in writing adequately? Has this change been legal without any impact on the validity of the initial tender procedure?
  32. Were the evaluation and award decisions properly documented and justified (e.g. evaluation and award decisions are properly documented and appropriate selection and award criteria have been applied to all received offers in a consistent way and as published in advance and no new criteria were added)?
  33. Have invoices been issued and payments been done in respect of the procurement budget and the amounts fixed in the contract/the accepted offer (global price, unit prices)?
  34. Are visibility guidelines of the donor respected? Is the donor logo displayed on all purchased goods and information communication material obtained by project funds?