

FINANCE POLICY MANUAL



Durawa Development Organization
(DDO)

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Accounting policy and procedure manual

DDO intends to establish an accounting policy and procedure manual. DDO accounting policy and procedure manual documents, policies and procedures are for record and monitor financial transactions. Documentation of accounting policies and procedures is important because it provides clarity regarding internal processes. In addition, it can be helpful to newcomers of a DDO while improving their financial management skills. Its purpose is to help DDO:

- Record all financial transactions
- Monitor and control expenditures
- Satisfy statutory reporting requirements
- Ensure timely and accurate financial and management reporting to donors and grant-makers

In general, this manual should outline the areas covered in the following section (1.2). An effort has been made to simplify these procedures to make it easier for you to develop your own accounting policies and procedures manual. As org grows in terms of level of activity and number of donors, it will be necessary to update your procedure manual accordingly.

Overview of procedures available

Following policies guideline and procedures which should be part of your organisation's procedures manual:

1. Section Description
2. Accounting Policies
3. Summary of Procedures
4. General Ledger
5. Cash Management and Disbursements
6. Budgeting and Budgetary Control
7. Fixed Assets
8. Travel
9. Procurement of Goods and Services
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13. Corporate Governance
14. Computer Information Systems (CIS)

Section Description

Currency

The currency of the grant or as agreed by the grant-maker. (ie, the currency of the country where the grant will be carried out).

Main office/local offices

Where the grant recipient has multiple projects or field offices as part of one grant, local bank accounts should be introduced. The main office should bear overall responsibility for distribution of funds to local offices or projects. The transfer of funds to the local office should be made according to the programme budget, project milestones and should be sufficient to meet the project requirements. This is necessary to

avoid large amounts of currency in local office bank accounts. The main office should monitor and ensure proper expenditure accountability by the local office. In addition, the main office should also consolidate expenses incurred at the local office level for reporting purposes.

Accounting convention

The accounts of the grant recipient should be prepared under the historical cost convention. The day-to-day transactions should be recorded at the monetary value of the goods or services or fair market value of the donated services.

Income

Income represents grants from donor, members' subscriptions and interest received from bank deposits and on investments. Grants, cash donations and interest received from bank deposits and investments are recognized as income in the period in which they are received.

Expenditure

Expenditure represents expenses incurred directly for programme activities. These are recognized when payments are made (ie, when cheque or cash is disbursed or paid).

Taxation

No provision is made for taxation payable as it is expected that the grant recipient will be properly registered, and therefore, be exempted from any taxation.

Currency of account

The accounts of the grant recipient should be created to reflect the budget line items of the approved programme budget. In addition, the accounts should be recorded in ***Purpose and objectives of the accounting system***

The objectives of the accounting system are:

- To record and classify all transactions accurately and completely
- To maintain a complete record of all:
 - **Revenue** received
 - **Expenditure** incurred
 - **Assets** owned
 - **Liabilities** due to third parties
- To report to donors on all required financial information

Process descriptions

General ledger Post monthly transactions of revenue, grants received, expenditure on project activity and other transactions relating to assets and liabilities. Preparation of accounts.

Cash books Record transactions on the grant recipient bank accounts and record receipts of petty cash from the bank and petty cash expenditure.

Budget and Record budget and actual expenditure by **expenditure** budget code on a monthly and cumulative basis.

Fixed assets Maintain manual records of all assets. Travel Record transactions relating to travel.

Procurement Record transactions relating to procurement of goods and services.

Payroll Record transactions relating to compensation of employees (eg, salaries, gratuities and incentives).

Reporting Prepare monthly, quarterly and/or annual reports.

Following steps should be adopted for grant management DASH BOOK

- Programme budget approved by donor
- Donor funds deposited into designated bank account
- Grant recipient updates cash book
- Grant recipient sends acknowledgement of receipt to donor
- Approved programme budget posted to grant recipients
- General ledger Service provider or vendor
- Selected using appropriate bidding procedure
- Service provider submits original invoice for payment
- Cash book posted to the general ledger
- Purchase order generated, properly authorized and forwarded to service provider Verification of correct quantity and quality of goods and services are received
- Monthly reconciliation of cash book to general ledger
- Good and services received and compared to purchase order Payment requisition prepared and authorized Monthly generation of reports from general ledger to monitor programme activities
- Service provider submits original invoice for payment
- Cheque signed by authorized signatories (original invoice stamped paid and filed)
- Cheque sent to vendor and cash book updated to reflect payment

General ledger procedures

This consists of the following activities:

Monthly

- Record expenditure by project activities
- Record other payments not relating to projects
- Record grants and other income received during the month.
- Extract monthly **trial balance**
- Identify and record (pass) **journal entries** for accrued charges and prepayments (if required)
- Prepare end of year **trial balance**
- Reverse year-end accruals after close of financial year. This is required to avoid overstatement of expenses.

Purpose of general ledger procedures

The General Ledger Accounting System is designed to improve the timeliness and quality of information available to org management. Financial information includes information on assets, liabilities, revenue, funding and expenses.

The Director/Finance Officer is responsible for producing all final general ledger outputs. Among the principal responsibilities are:

- Receipt and coding of all source information into the general ledger
- Verification and input of the information related to expenses, budget, funding, revenue, assets and liabilities
- Production and distribution of general ledger reports to budget holders and other interested parties

The source of data for the general ledger system is the other sub-systems: budgeting, fixed assets, cash and payroll systems. This data should be used in the preparation of management and financial reports. The general ledger should have separate accounts for each budget line for each of the donors. This will make the preparation of donor specific financial statements easy. The monthly postings to the general ledger are cash based. If the organisation is to account on an accruals basis, year-end accruals for creditors, debtors and prepayments should be recorded to convert the accounts to an accruals basis.

Purpose of cash management and disbursements

The purpose of cash procedures is to ensure that:

- All cash received is properly accounted for
- All cash received is deposited intact in the respective bank accounts. Ideally, a separate bank account should be opened for each donor. If this is not possible, then a separate cost code within the general ledger should be maintained
- There is separation of responsibility of handling the cash/cheques and that of recording
- All cash transactions are properly captured by the general ledger system
- All payments are properly verified and approved prior to payment
- All creditor payments are made by cheque
- All vouchers and supporting documentation are properly stamped "paid" before cheques are dispatched
- Proper and timely **bank reconciliations** are prepared and independently reviewed. The key steps in preparing bank reconciliation are:

Compare the bank statement and the cash book balance. Tick off all items which are in both records.

Check the bank statement itself also for accuracy of additions.

For the unmarked items:

- Record all bank charges into the cash book.
- Identify and record in the cash book any other debits on the bank statement which are not in the cash book. Record these debits in the cash book.
- Identify any credits on the bank statement that have not been recorded on the cash book. Adjust the cash book by recording these items in the cash book.
- All reconciling items should be examined for genuineness and any unusual items investigated.
- On completion of the above, prepare a reconciliation as follows:

Balance per bank statement

Less: Unpresented cheques

Add: Outstanding lodgements (eg, deposits in transit)

Cash book balance.

Present the bank reconciliation to the authorized officer for review and approval.

File the approved bank reconciliation in a "reconciliations" file. Prepare bank reconciliations on a monthly basis.

Purpose of budgeting and budgetary control procedures

The purpose of budgeting and budgetary control procedures is to:

- Prepare annual and/or operational budgets
- To record daily expenditure by the org budget code
- To record cumulative expenditure to date by budget code
- To compare and monitor cumulative expenditure by budget code to the original (or revised) budget allocations from donors. These procedures should satisfy the requirements of the donors funding the grant recipient. Information from the budget book can be used in the budget-monitoring sheet for reporting and also for assisting in controlling expenditure. Ideally, the budget book should be maintained on a computer spreadsheet. This makes it easy to update and amend. However, the budget book may be maintained and updated manually. Each budget line should be on a separate page.

Budget and expenditure procedures

Principal activities that should be performed:

1. Prepare annual work programme and budget.
2. Prepare operational budgets.
3. Record the original (or revised) budget for the financial year.
4. Post daily expenditure to the budget book, record cumulative expenditure and monitor remaining budget.
5. Obtain donor approval in advance for revisions of budgets.

Purpose of fixed asset procedures

The purpose of fixed asset procedures is to ensure:

- DDO assets are safeguarded by recording their details and monitoring their location and condition
- All movements of fixed assets are accounted for in the general ledger. These procedures provide guidance for introducing a manual fixed asset register and updating it for additions and disposals, as well as recording movements of assets in the general ledger.

Fixed assets and depreciation

Fixed assets are defined as tangible assets, which have been acquired either through purchase or donation with the intention of being used on a continuing basis for a period exceeding one year. All assets whose price exceeds 10,000 should be included in the grant recipient's fixed asset register. Assets under this value should be monitored but do not require inclusion in the fixed asset register. To facilitate proper financial and management control, fixed assets have been grouped into five categories:

Asset class Asset description

- 1 Motor Vehicles (MV)
- 2 Office Equipment (OE)
- 3 Office Furniture and Fittings (OF)
- 4 Computer Equipment (CE)
- 5 Leasehold Improvements (LI)

Fixed assets should be recorded at cost of purchase price or market value for donated assets.

- Assess the condition of the assets and their location
- Assign asset tag numbers or a suitable reference number to each asset

7. To create an asset register, record individual assets in the register by entering the following headings:

<i>Name and description</i> –	Record the name and description of the asset.
<i>Cost</i> –	Original purchase price or fair value donated.
<i>Supplier</i> –	Record the source of the asset.
<i>Purchase reference</i> –	Provide a reference to the procurement/ payment documents.
<i>Date of purchase</i> –	Record the date of purchase.
<i>Location</i> –	Record the present location of the asset
	through inspection. <i>Condition</i> – Record the present condition of the asset (excellent, good, fair and poor).
<i>Asset number</i> –	Record the asset number (tag number) where numbers are being assigned.

8. Extract a list of opening asset values posted to the manual fixed asset register and check that the totals agree with the initial listings.

9. The Project or Programme Administrator should update the fixed asset register as follows:

- Perform an annual physical inventory count to confirm the existence and condition of the fixed assets
- Record any fixed asset additions
- Record any fixed asset disposals
- Remove fully depreciated or obsolete assets from the fixed asset register

7.3 Fixed asset tag numbers

The tag numbers for the office equipment, furniture and fittings and computer equipment should be based on the asset class. An easy way of recording in the fixed asset register is to use a three-digit tag number in the format of the following example: BMS/OE/015. BMS designates the donor. The digits OE indicate the asset category (Office Equipment) while the last three digits represent the asset number in chronological order. For motor vehicles, the registration number should be sufficient for identification purposes.

7.4 Fixed asset procedures

Principal activities that should be performed:

1. Record opening balances of existing fixed assets in the **asset register** (either at cost for asset purchases or fair market value for asset donations).

2. Update the asset register for additions in the month of purchase or donation.
3. Update the asset register for disposals in the month of disposal.
4. Record additions and disposals of fixed assets in the general ledger.
5. Where applicable, compute and record **depreciation**.
6. To have an effective fixed asset register, the following steps should be followed:

- Prepare a listing of fixed assets donated by each donor during the year
- Prepare a listing of fixed assets purchased by the grant recipient during the year
- Verify existence of each item on the lists above by performing a physical inventory count

8.1 Purpose of travel procedures

The purpose of travel procedures is to ensure that:

- All travel, international or otherwise is adequately planned for in advance
- All travel expenses are for properly authorized travel on official business and are incurred at the correct rates
- All travel advances are properly and completely accounted for before they are expensed
- All donor requirements relating to international travel are adhered to

Travel procedures

There are three (3) principle activities:

- Preparation of proposed itinerary for planned travel
- Authorization of travel application form
- accounting for travel advances

Persons/Parties excluded from competing for contracts

1. No employee, officer or agent or relative of the grant recipient should participate in the selection, award or administration of a contract if a real or apparent conflict of interest would be involved.

The standards of conduct governing performance of officers, agents or employees engaged in administration of contracts and any disciplinary action to be taken against them if in violation of these standards should be enumerated in the staff rules and regulations.

2. No contractor involved in developing or drafting specification requirements, statements of work or request for proposal should be considered for such procurement. 3. The Administrator should review the grant agreements to ensure the donor regulations on the persons to be excluded from competing for contracts are effectively excluded. Procurements should be carried out using one of the following:

a. Tendering

All goods and services valued at 50 000 (or other agreed amount) and over should be procured by Tendering. The tender must include complete, clear and accurate information on:

- Responsibilities of contractor/specifications of tasks/ type of service required
- Minimum qualifications and experience required
- Terms of service
- Identification of the grant recipient as the originator, giving full details of where and by when (date and

time of bid closing) the offer must be submitted

- Time frame for the proposed order, from issue of order to final delivery

b. Quotations

Goods and services valued at more than PKR 10.000 but less than 500 000 should be procured through quotations. The procedures are as follows:

- Obtain a list of known suppliers for the required goods or services
- Obtain quotations from at least three different suppliers from the list above
- Fill in the Comparative Quotation Chart (CQC) to analyse and document justification for recommending a particular vendor
- In compiling the CQC above, in addition to prices, other factors such as reliability, previous satisfactory performance with the grant recipient, quality products/services and delivery schedules should be considered. Goods and services valued at less than 50 should be purchased after obtaining the approval of the Director. The grant recipient should develop a list of reliable suppliers to expedite future purchases

Annual reports and audit requirements

a. The org is subject to the audit requirements as indicated in the grant agreements. Furthermore, the grant recipient should ensure the organization complies with statutory audit requirements.

b. For the audit to be carried out, the grant recipient may be required to prepare annual accounts for the whole organisation. The grant recipient should select an independent auditor. The audit shall be a financial audit performed in accordance with generally

10.1 Purpose of reporting requirement procedures

The purpose of the reporting requirement procedures is to define the type, content and frequency of reports. The official may be required to prepare the following types of reports:

- Financial and programme reports to management and board of directors
- Financial and programme reports to donors
- Statutory reports (eg, annual audited accounts)

Reports may be prepared monthly, quarterly, semi-annually and/or annually depending on the needs of each category of users.

The following section explains the reporting requirements

It is important to note that following the same type of reporting, the grant recipient will meet the requirements of many donors. However, the Director/Finance Officer should always refer to the grant agreements to ensure that the reporting requirements of each specific donor are complied with.

Quarterly financial reports: Financial status report

Annual reports and audit requirements

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b. For the audit to be carried out, the grant recipient may be required to prepare annual accounts for the whole organisation. The grant recipient should select an independent auditor. The audit shall be a financial audit performed in accordance with Generally

Payroll

Purpose of Pay roll

The purpose of payroll procedures is to ensure that:

- Employees are paid in accordance with letters of appointment
- Payments to employees are properly accounted for
- Statutory and voluntary deductions are properly accounted for and remitted to the appropriate authorities
- Salary advances are properly accounted for and recovered from salaries

Payroll procedures

The payroll procedures are described below under the following headings:

1. Personal payroll records
2. Salary advances
3. Preparation of payroll
4. Part-time employees
5. Payments and accounting entries
6. Incentives

Detailed instructions for payroll preparation

1. Personal payroll records

- The Programme Director should prepare a personal payroll record for each employee
- This information should serve as a guideline for developing permanent record of standard data to be included in the monthly payroll for each person. The main sources of information are:

- Engagement letters
- Discharges
- Promotion notifications
- Notification of changes in basic pay
- Leave entitlement
- Disciplinary actions

- The Programme Administrator should maintain a personal record for each employee
- The Administrator should regularly check the payroll data and verify information against the personal payroll records

2. Salary advances

- The procedure for the preparation of salary advances should be as follows:
 - List of names is prepared for all employees wishing to draw salary advances
 - The list is passed to the Administrator for approval
 - A cheque is prepared for the total amount to be paid
 - Payment is made by the cashier to the employee who should sign against their names on the list as evidence of receipt

- When an employee requests for an advance, the employee should complete a Request for Salary

Advance form in duplicate by filling in the following details:

- Date
- Name of employee receiving advance
- Section/Area
- Reasons for the advance
- Amount of the advance

– Employee signature

- Salary advances should be approved by the Programme Director or Chief Financial Officer

- After obtaining the necessary approval, the copies

are distributed as follows: – Original to accounts department:

- To effect salary advance to employee

- To update the salary advance register

– Duplicate to be provided to the employee as receipt

3. Preparation of payroll

- The payroll should comprise of an individual salary slip, individual payroll and a payroll analysis sheet

- In preparing the monthly payroll, the following

procedures should apply for each employee:

– Basic pay should be entered

– Entry should be made for any allowances

– Salary-related employee deductions (PAYE, medical aid and pension contributions) should be calculated from published tables and other records, and the employee's contribution entered in the relevant column on the payroll

– Any repayment of advances should be entered

– The total of all deductions should be calculated

and entered and this amount deducted from the gross pay to give the net amount payable to the employee

- A list of employees receiving their salaries through the bank should be prepared. Details of employees' bank accounts, and amounts to be credited should be provided to the bank together with a cheque for the total amount

4. Part-time employees

- The Director should be responsible for hiring part-time employees. Hiring part-time employees

Should depend on the programme for the year and there should be a budget for the service

- upon recruitment, the Administrator should maintain a register of all the part-time employees together with the number of hours worked each period. The source of information for the register should be claim forms signed by the Programme Officer/Administrator

- Claim forms should be completed by the part-time employees and submitted to the Programme Officer/Administrator who checks and approves them

5. Payments and accounting entries

- A payment voucher should be prepared for the net pay as per the payroll summary sheet and the amount debited to Salaries Control Account and credited to cash

- At the same time, from the payroll summary sheet, a journal voucher should be prepared to update the books of accounts

6. Incentives

- Incentive schemes should be formalized and documented in the policies and procedures manual. The incentive strategies should be widely communicated and equitably applied

- Incentives should only be paid once earned or achieved. Incentives should not be paid in advance

Purpose of branch accounting

The purpose of branch accounting procedures is to ensure that:

- Branch office expenditure is paid for promptly to avoid unnecessary delays
- Branch office expenditure is fully captured for inclusion in the grant recipient's financial records
- Accounting documents for branch expenditure are accumulated, and promptly submitted to Head Office for consolidation
- Branch expenditure is properly accounted for

Standing imprest

The standing imprest procedures are described below under the following main headings:

1. Size of **float**

2. Disbursement of floats to area offices
3. Drawings (Withdrawals??)
4. Reimbursement
5. Unretired imprest

1. Size of float

- The Director in consultation with the Administrator establishes the size of the float for each branch.

The size of the float should be based on the following criteria:

- Size of the branch or sub-recipient and average expenditure per month
- Projects and activities planned for that branch during the year
- Communication logistics
- Average time required for branch to

communicate with Head Office bearing in mind postage delays, head office review and remittance procedures

- After establishing the size of the float, the Administrator prepares a timetable for each area showing amount of disbursements and expected date of retirements. The timetable is kept by the Branch Accountant as a control device to follow up on unretired imprests

2. Disbursements of floats to area offices

- At the beginning of the year (or grant), the Head Office sends to the branch or sub-recipient an opening float, which should be thrice the size of the monthly approved float. The amount is sent to the branch through the imprest bank account. A letter containing the details of the amount transferred is sent to the branch for follow up and record keeping
- The bank, on receiving the remittance will also advise the branch by a bank advice, which is filed along with the notification from Head Office
- On receipt of funds from Head Office, the branch records the transfer in the receipt column of the cash book.

• Subsequent disbursements from Head Office to the branches should be based on a reimbursement System

3. **Withdrawals**

- The Branch Accountant draws money from the bank from time to time, depending on the branch cash requirements. Every drawing is recorded in the payment column of the cash book
- It should be understood that the funds sent to the branch office are to cover all the projects within the branch

- Each co-coordinator will write his/her work plan and give it to the Branch Accountant who will then submit it to Head Office for review and approval
- The funds given at a particular moment will be equivalent to cover the activity to be done for that time period. The balance of the money should remain under the control of the Branch Accountant
- Coordinators write requests for funds to the Branch Accountant

4. Reimbursement

- The coordinators have to account for this money before another request for funds is approved
- On receiving these retirements from the coordinators, the Branch Accountant compiles the report to be verified by the Administrator at the Headquarter Office in order to claim reimbursement
- On receipt of the retirement, the Branch Accountant should review and clear any abnormal items with the Head of Programmes
- If there are no items to be cleared in a particular branch, the Branch Accountant should prepare a journal voucher to account for the expenditure and a payment voucher for reimbursing the Headquarter Office. The journal and payment vouchers are passed to the Administrator for review.
- After review, the Administrator should issue a journal voucher and number and pass the documents to the Director for written approval and authority to transfer funds to the branch upon the Treasurer's approval
- The voucher should then be returned to the Branch Accountant who updates the subsidiary branch ledger and files the journal voucher in the monthly journal voucher file for posting to the general ledger at the end of the month.
- Retired imprest documents should be filed serially in the respective branch records

5. Unretired imprest

- The Regional Coordinator should follow up unreturned imprests and report this to the **Administrator**
- The Branch Accountant should assist the branches in carrying out monthly reconciliations and investigating differences if any. The reconciled branch balances form the supporting schedules for cash balances when preparing year-end financial statements

Purpose of corporate governance

The purpose of establishing **corporate governance policies and principles** is to:

- Define the organisation's objectives and strategies and the means to implement them
- Ensure needs of all stakeholders are met
- Set clear principles regarding standards of conduct
- Provide a risk management framework

Corporate governance policy

The officer of the grant recipient is responsible for the organisation's corporate governance, and sets the corporate governance policy. The policy should consist of various directions regarding the board, its committees and management's functions and responsibilities.

Board and Directors/Trustees

The organization should have a Excom that can both lead and control the organisation. It should comprise members with diverse backgrounds, skills and experience. The board should also have a charter setting out its responsibilities. The board should:

- Appoint the Chief Executive Officer/Executive Director
- Provide strategic direction and identify key risk areas
- Enforce internal control policies and procedures
- Determine the appropriate remuneration levels of

(Executives)

- Comply with all relevant laws, regulations, donor requirements and codes of conduct
- Hire external auditors to review/monitor the accounting and reporting systems in order to provide comfort that all donor funds for which the grant recipient is contractually liable are safeguarded
- Ensure that the systems of internal control are functioning effectively
- Provide open and timely communication to all relevant stakeholders

Meetings

- The Executive of the grant recipient should meet on a regular basis, and preferably at least quarterly
- Minutes of the directors' meetings should be circulated timeously. The chairperson of the board should sign the minutes
- An annual general meeting should be held within no more than nine months of the year-end. The audited financial statements should be presented at the meeting

Code of ethics

The grant recipient should engage its stakeholders in determining the organisation's standards of ethical behaviour. It should demonstrate its commitment to organizational integrity by codifying its standards in a code of ethics and:

- Create systems and procedures to introduce, monitor and enforce its ethical code
- Assign high level individuals to oversee compliance with the ethical code
- Assess the integrity of new appointees in selection and promotion procedures
- exercise due care in delegating discretionary authority;
- Communicate with, and train, all employees regarding organizational values, standards and compliance Procedures
- Provide, monitor and audit safe systems for reporting of unethical or risky behavior
- Enforce appropriate discipline with consistency
- Respond to offences and prevent recurrence

The grant recipient should strongly consider its dealings with individuals or entities not demonstrating its same level of commitment to organizational integrity

Purpose of computer information systems procedures

The purpose of computer information systems procedures is to ensure that:

- An appropriate information system is used by the organisation
- There is no unauthorised access to the organisation's computer systems
- The organisation has adequate disaster recovery plans for its computerised information
- The organisation's information is accumulated, processed and reported on accurately and in a cost-effective manner
- Personnel have adequate knowledge of the computer systems being used by the organization

Computer software issues

- A decision must be made as to whether a vendor will be required to design and write a programme for the organisation or a system will be purchased off the shelf. In either case the tendering or procurement procedures, as appropriate, set out elsewhere in this document must be followed. In making this decision, the CIS needs of the organisation should be carefully considered
- The software used should be able to report by cost code or budget line in order to make the reports comparable to approved budgets
- The software should be configured to generate meaningful reports such as reports to donors, annual financial statements and any other report relevant for the organization's operations, with minimum human intervention

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Systems (CIS) Purpose of computer information systems procedures

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Code on good corporate governance

This is the generally accepted code on good corporate governance in South Africa. It lays out minimum standards that boards of organizations should comply with. While it has no legal basis, it is widely accepted. The code was set up primarily for larger corporate organizations but its principles are applicable for all organizations.