



**INTEGRATED DEVELOPMENT  
FOCUS, SOMALIA - IDF-S**

---

# **FINANCE POLICY AND PROCEDURE**

AN

IB



# **INTEGRATED DEVELOPMENT FOCUS – SOMALIA (IDF-S)**

## **FINANCE POLICY AND PROCEDURE**




**PRODUCTION MANUAL DATE: 30<sup>th</sup> of June 2018**

## Table of Contents

<b>CHAPTER 1: BACKGROUND INFORMATION .....</b>	<b>1</b>
1.1 Purposes, Maintenance and Administration of the Manual .....	1
1.1.1 Purpose of the manual .....	1
1.1.2 Manual Maintenance.....	1
1.1.3 Policy Administration .....	1
1.2 Accounting Policies .....	1
1.3 Chart of accounts.....	1
<b>Chapter 2: FINANCIAL PLANNING AND BUDGETING .....</b>	<b>3</b>
2.1 Introduction This policy aims to amongst others provide.....	3
2.2 Budget Preparation and Approval.....	3
2.3 Budget Monitoring and Amendments.....	3
<b>CHAPTER3: ACCOUNTING FOR INCOME &amp; BANK .....</b>	<b>5</b>
3.1 Cash Receipts .....	5
3.2 Cash Estimates.....	5
3.3 Petty Cash Management .....	5
3.3.1 Replenishment of Petty Cash / Revolving Funds.....	6
3.4 Bank Management.....	7
3.4.1 Basic controls on bank accounts .....	7
3.4.2 Bank Reconciliation .....	7
3.5 Foreign Currency Exchanges.....	7
<b>CHAPTER 4: ACCOUNTING FOR PAYMENTS.....</b>	<b>8</b>
4.1 Introduction.....	8
4.2 Payment Requisition Voucher.....	8
4.3 General Payment Controls.....	9
4.4 Staff Advances.....	9
4.4.1 Imprest and Float to Staff .....	9
4.5 Payments to Consultants, Contractors & Other Third Parties.....	11
<b>CHAPTER 5: DEBTORS, CREDITORS AND PROCUREMENT .....</b>	<b>12</b>
5.1 Debtors (Accounts Receivable).....	12
5.1.1 Control on Debtors .....	12
5.2.1 Liabilities (Accounts Payable) .....	12
5.2.2 Control over Liabilities .....	12
5.3.1 Insurance and Risk Management .....	12
5.3.2 Internal Control and Procedures.....	13
5.4 Procurement and Stocks Management.....	13
5.4.1 Introduction .....	13
5.4.2 Tendering, Bid Analysis, Order and Delivery of Goods/Services .....	13
5.4.3 Delivery of Goods and Services .....	14
5.5 Stocks Management .....	15
5.5.1 Receipts of goods into stores.....	15
5.5.2 Dispatch of goods from stores .....	15
5.5.3 other controls and procedures .....	15
<b>CHAPTER 6: MAINTENANCE OF ACCOUNTING RECORD .....</b>	<b>16</b>
6.1 The General Journal.....	16
6.2 Control Ledgers.....	16
6.2.1 Internal Control and Procedures for Accounts Receivables .....	16
6.3 Year End Adjustments: Accruals Prepayments .....	16
6.4 The Trial Balance .....	17

<b>CHAPTER 7: PROPERTY AND EQUIPMENT MANAGEMENT .....</b>	<b>18</b>
7.1 Introduction .....	18
7.2 Acquisition of Fixed Assets and Property .....	18
7.3 Disposal of Property and Equipment .....	19
7.3.1 Other General Controls over Property .....	19
7.4 Controls over Motor Vehicles .....	19
7.5 Depreciation .....	20
<b>CHAPTER 8: FINANCIAL REPORTING .....</b>	<b>21</b>
8.1 Monthly Financial Reporting .....	21
8.2 Financial Statements .....	21
8.3 Other general Reporting Policies .....	22
8.3.1 Responsibilities of the preparation of report .....	22
8.3.2 Regular preparation of activity reports .....	22
8.3.3 Reporting Formats .....	22
<b>CHAPTER 9: EXTERNAL AUDIT .....</b>	<b>23</b>
9.1 Introduction .....	23
9.2 Audit Time Table .....	24
9.3 Basic Year-End Audit Requirements .....	24
9.3.1 The Methodology .....	24
9.3.2 Audit Reporting .....	24
9.3.3 Liaison with External Auditors .....	24

**POLICY APPROVAL**

<b>APPROVING AUTHORITY</b>			
<b>Title</b>	<b>Name</b>	<b>Signature</b>	<b>Date</b>
IDF Executive Director	Ali Mohammed Noor		15/07/18
IDF Board Member	Luq mahamed Abdi		15/07/2018
IDF Chairperson	Ubrahmi Abdillahi Ubrahmi		15/07/2018



*Handwritten initials: An AB*

## CHAPTER 1: BACKGROUND INFORMATION

### 1.1 Purposes, Maintenance and Administration of the Manual

#### 1.1.1 Purpose of the manual

- a) To define the financial policies, controls, systems and procedures and establish a standard basis for official decision making, actions and accountabilities and the general financial operations of IDF.
- b) To give guidance on financial reporting requirements.
- c) To ensure a uniform accounting practice within and across IDF operations.

#### 1.1.2 Manual Maintenance

- a) The Manual will be formally reviewed every two (2) years. The management may conduct consultations with staff as needed, and submit final recommendations for amendments, revisions or policy changes to the Board for final consideration and approval.
- b) However an annual evaluation of the manual should be carried out to provide for any important changes or addition necessary to update the organizations policy, rules, procedures and guidelines, subject to approval of the Management Team.
- c) Upon approval of any proposed changes, the manual will be updated accordingly after which, the Accountant will distribute the revised copies to relevant staff/offices.

#### 1.1.3 Policy Administration

- a) The manual sets out policy guidelines on the major operating issues and concerns of IDF. Should the need for clarification arise on matters not specifically provided for in the manual, the Accountants will exercise the administrative responsibility of providing for such interpretation.
- b) The Accountant is responsible for the general administration of the manual. Operating mechanisms and programs will be developed in consultation with the Management Team and staff members to ensure sufficient understanding and uniform application of policies.
- c) Specific control, procedures or policy requirements by donors shall be implemented as per the requirements and or agreement with any such donors.
- d) Any policy, rule, regulation, procedure or provisions that conflict or shall conflict with Somali National Laws, International Accounting Standards (IAS) or Generally Accepted Accounting Principles (GAAP), shall be superseded by the later.

### 1.2 Accounting Policies

- a) **Basis of Accounting:** IDF financial accounts shall be prepared under the historical cost convention and in accordance with International Financial Reporting Standards except for fixed assets that shall be expensed immediately upon purchase and incomes recognized as described 1.2.2 below
- b) **Income:** Income comprises transfers and grants from donors and other sources. All transfers and incomes shall be recognized in the financial statements on the date received. Unspent amounts shall be deferred and recognized in the operating statement in the year in which it will be spent
- c) **Expenditure:** Expenditure is recognized when payments are made - however, accruals; end for expenditure incurred and not paid for (modified cash basis). Project shared expenditure shall be allocated to individual projects on the basis of benefits received by those projects, and in compliance with individual donor agreements.
- d) **Property, Equipment and Depreciation:** Property and equipment are expensed to the income and expenditure upon purchase. Depreciation shall be at rates, which are estimated to reduce book values to the estimated net realizable values at the end of the useful lives of the property and equipment concerned. An asset register shall be maintained to record assets. Depreciation is computed using the straight-line method over the estimated useful lives of respective assets

- e) **Foreign Currency Translations:** Transactions in currencies other than the US Dollar are converted to base currency (using rates ruling at transaction dates). Assets and liabilities at the balance sheet date are translated at the rate ruling at that date. At the balance sheet date, all assets and liabilities are denominated in USD. Transactions during the year shall be translated at the average rates prevailing during the month. Gains & losses on exchange shall be dealt with in the operating statement.
- f) **Base Currency:** The annual financial statements shall be presented in US Dollars (USD).
- g) **Going Concern:** The annual accounts are prepared on a going concern basis which assumes that IDF will continue its operations into the foreseeable future.
- h) **Consistency:** Annual accounts are prepared on a consistent basis implying that IDF will follow the same accounting methods from one year to the next e.g. If a cash accounting basis is adopted, it should be followed for all items and for all years.
- i) **Prudence:** Means that no account will be taken of any promised incomes which has not yet been contracted or received; conversely anticipated losses, if any, should be included in the accounts.

### 1.3 Chart of accounts

- a) A chart of accounts shall be maintained in the accounting system and a printed hard copy (updated) filed. It shall include account codes, name of account, type of account and its default currency denomination. All projects and donors must be allocated a project and donor numbers respectively that conform with IDF system of coding.
- b) Creation, allocation and modification of account codes shall only be carried out by the Accountant with prior approval from the Head of Finance/ Finance Manager.
- c) Accounts classes will also be created and listed to conform to the various accounting and reporting requirement.

Ar  
JTB

## Chapter 2: Financial planning and budgeting

### 2.1 Introduction This policy aims to amongst others provide:

- a) A financial plan that quantifies the organization's programmatic goals, objectives and activities through allocation of financial and human resources.
- b) A system for monitoring and evaluating the financial activities, performance and position of the organization during a certain period.
- c) A tool for controlling spending.

### 2.2 Budget Preparation and Approval

- a) Annual programs and budget planning should be conducted in October, November & December or at the start of any particular project.
- b) Each department shall evaluate previous years' performance and review IDF's strategies for all focus areas; significant factors, operational factors and identify major new initiatives/projects that may have an impact on the budget. The outcomes shall form a basis of input into compiling the budget for the coming financial year.
- c) The budget should always balance the source amount and the total expenditure. If the budgeted expenditure is more than the funds available, expense reduction should be done or possible soliciting of additional funds be explored.
- d) All budget items must be supported by a justification, activity and intended outcomes.
- e) In respective cases, planning and budgeting will be determined by the existing Development partners funding arrangements. With these general parameters in mind, the specific project officers will begin the process of developing the budgets.
- f) In November the budget planning and finalization meetings to discuss the prepared budgets and projects performance reports are held between respective programs, management and finance. The budget outcomes of these meetings are submitted to the Accountant for consolidation and compilation by the 15th November. The budgets are submitted in a recommended IDF budget format to the board by 1st December for approval. Any amendments proposed by the board have to be accommodated within two weeks.
- g) The budget will be developed in US Dollars (or any other currency that shall be agreed upon from time to time). All assumptions underlying preparation of the budget shall be clearly stated so that it can be clearly understood.

### 2.3 Budget Monitoring and Amendments

- a) Budget monitoring shall be the responsibility of project managers or the approved budget holders. The Accountant shall do the overall monitoring and reporting.
- b) The Project Actual Expenditure Spreadsheet analysis shall be done monthly. The Accountant shall prepare a spreadsheet showing the actual amount spent in each project at the end of every month.
- c) This shall be disbursed to the Project managers and Executive Director by 7th of each month. The Project Managers shall then check the variances between the actual and the budget; explain any variances; seek clarifications from the Accounts department immediately and make decisions on the way forward - if the project has overspent, cut down possible expenses, or submit an amended budget with explanations through the amendment process. If the Project has not spent all the funds, check which activities are lagging behind to make sure their implementation is still within plan.
- d) The budget should be incorporated in the financial statements and reports, to compare actual spending or revenue against what was planned.
- e) The conditions for budget amendments include variations in expenditure of below or above 10% the budgeted sum and or new projects during the financial year (include budgets prepared for specific funding from other donors).



- f) The Accountant, and the project manager whose project budget is to be amended prepare budget amendments. The amended budget shall go to the Board for approval.
- g) As part of monitoring progress of IDF, quarterly reviews comparing financial and program activities shall be conducted by the project officers/holders and the accountant. All relevant staff should attend this meeting.

AN  
LB

## CHAPTER 3: ACCOUNTING FOR INCOME & BANK

### 3.1 Cash Receipts

- a) All receipts in the name of IDF (cash, cheques and direct debits) shall be recorded on an official pre-numbered receipt in duplicate or petty cash voucher clearly marked "INCOME".
- b) All cash receipts should be counted and verified by the Accountant before being deposited intact to petty cash box on the same day & banked latest the following banking day to a IDF account.
- c) Physical handling of cash shall be the responsibility of the Cashier or an authorized officer and must be separated from recording and accounting functions.
- d) The control and custody of all unused receipt booklets should be assigned to a person other than the Cashier. The Accountant shall maintain a control record of receipts and issuance of this form in order to have a detailed record of the movement of all Official Receipts Booklets.
- e) All cheques should be in the name of IDF. Received cheques shall be banked the same day or latest the next banking day; deposit slips are prepared in duplicate & attached to the receipts.
- f) The validated duplicate copy of the deposit slip and the duplicate copy of the Official Receipt shall be the basis of recording the cash receipt transaction.
- g) Official Receipts to be issued as follows: original copy to payer, donor, or funding agency and the duplicate copy to be kept as file copy (remains in the booklet)
- h) The Accountant records official receipts in the Books and posts in the cash receipts book and to the subsidiary ledgers. These should be reconciled to the physical documents periodically.
- i) The official receipts voucher generated should be filed together with the supporting documents. Receipts should be completed with information on Date; Received from (Payer); Amount in words and figures; Description; Account codes and class; Subsidiary reference and Cashier's signature.
- j) Whenever a receipt is cancelled, the original shall be left in the receipt book with brief comments as to why it was cancelled. And if another receipt is issued in its place, this should be indicated on the cancelled one e.g. "cancelled, replaced by receipt No... "
- k) Care should be taken to ensure that funding partner requirements regarding handling of their funds are strictly observed and especially ensuring that all their grants and other receipts for projects/programs are banked in separate bank accounts.
- l) When payments are made directly to the bank, the accountant shall issue a receipt upon receipt of bank advice indicating the payment.
- m) When a check is dishonored, the accountant shall communicate with the drawer immediately. The dishonored check shall not be released until the drawer make acceptable alternative payment, the entry be reversed in the cashbook.

### 3.2 Cash Estimates

- a) The Accountant will periodically determine the required funds by reviewing:
    - Cash forecasts including value of unpaid invoices
    - Contractual obligations
    - Expenditures within the budgets and annual activity plans
  - b) The Accountant will ensure that accounts are up to-date and that IDF has sufficient (cash flow) funds to carry out its activities
  - c) The Accountant will make an accurate estimate of expenses for the month and advise the Programme Management accordingly
- IDF will avoid overdrafts wherever possible

### 3.3 Petty Cash Management

- a) The Petty Cash Fund shall be maintained under the Imprest System with an authorized float level of US\$ 150 (or its equivalent) at all times. Any change in this maximum amount requires prior approval in writing by the Executive Director.

- b) All disbursements from the petty cash should be supported and covered by duly approved petty cash vouchers. Petty Cash vouchers should be pre-numbered and sequentially filed.
- c) The custody of and responsibility for the cash box shall be limited to a duly designated custodian (Cashier). The petty cash fund shall be physically segregated from the custodian's personal funds, kept in a cash box and locked in a safe at all times as a security measure.
- d) Individual disbursements (single item purchase) from petty cash shall not exceed US\$ 150 or its equivalent in other currencies. Amounts above the maximum limits shall be paid by cheque.
- e) Upon receipt of a payment request and supporting documents, the Cashier shall prepare a petty cash voucher, written in ink to prevent alterations. The information includes the following: Date; Payee; Amount (both in words and figures); Description of expense; Account Codes and donor code; Ledger or pre-numbered reference and Signatures of preparer, approver and recipient.
- f) The cashier then forwards petty cash vouchers with supporting documents for approval to the Accountant after which s/he pays (on approval). The receiver acknowledges receipt by signature.
- g) All invoiced bills shall be paid through the cheques. Petty cash shall not be used to accommodate personal cash advances and/or encashment of personal cheques.
- h) All petty cash vouchers & supporting documents should be stamped "PAID" to prevent re-use.
- i) Daily cash box count and reconciliation should be done and documented by the box custodian. Cash counted and the pending unreimbursed receipts should reconcile to the maximum petty cash float balance of US\$ 500. The reconciliation, signed by the custodian and the accountant and supported by receipts, should form the basis of posting to the cash ledger on a daily basis.
- j) Reconciliation of petty cash box to the cash ledger should be carried out every Monday of the week. The reconciliation shall be done by the Cashier and approved by the Accountant.
- k) The Accountant shall conduct surprise cash counts on a regular basis for all the cash boxes in all designated IDF locations. Any fund shortages should be accounted for by the cashier.

### 3.3.1 Replenishment of Petty Cash / Revolving Funds

- a) The Petty Cash shall be replenished when funds run low or once it reaches the agreed minimum re-order level amount of 25% of the approved cash float. The cashier will prepare a transaction report, conduct a cash count and reconcile the balances.
- b) A Petty cash reconciliation report that shows the amount of cash request shall be prepared. The report is presented with paid petty cash vouchers and supporting documents to the Accountant.
- c) The report, once approved will be the basis for the preparation of the petty cash cheque voucher. The Cheque Voucher prepared shall go through the normal cheque approval procedures.
- d) The cheque should always be drawn in the name of IDF/Cashier and cash collected by only the authorized banking agent.
- e) An overall Petty Cash reconciliation should be done every last day of the month after all transaction for the month are posted in the system and cash counts agreed to the system figures.
- f) All external receipts into petty cash - though this is not encouraged - (e.g. cash received from unspent cash advances) shall be treated as replenishment unless such cash is a return of balances from a specific cash request from that cash box (thus a reduction in that voucher amount).
- g) All confidential documents of IDF and petty cash box shall be kept safely and securely in a safe. A safe should be operated by at least two persons. One holder of the key to the safe should be the person responsible for the contents of the safe. The second holds duplicate keys which must be kept in a secure location not easily accessible by any person other authorized officers of IDF.
- h) The person holding the key to the safe shall be responsible for the safety of the contents of the safe and shall compile a report on the status of the safe if and when required. The safe shall securely be locked at all times including the safe room door. Petty cash box must be locked in the safe every end of work or when not in use.

AN

IB

### **3.4 Bank Management**

#### **3.4.1 Basic controls on bank accounts**

- a) The number of bank accounts should be kept to a minimum necessary to enable transact its business. All of IDF financial transactions must flow through the general current account (including those of any group or organization using the name of IDF for its activities).
- b) IDF shall have a general current account to handle the operations and or a separate account through which all project transactions will be recorded.
- c) These accounts are also under the control of the Director and or his designee. All activity is recorded and shown on monthly financial statements.
- d) Permanent records of authorized cheque signatories should be kept as part of IDF records. There shall at any time be at least three (3) signatories, with any two to sign. The Accountant should **not** be an authorized signatory.

#### **3.4.2 Bank Reconciliation**

- a) The Accountant will be responsible for all the bank reconciliations of IDF. Each bank account (bank statement) will be reconciled monthly in any case not later than the 5th of the following month to its accounting system ledger each month.
- b) Staff other than those who physically handle the cash or keep any records involving cash should do reconciliation.
- c) The reconciliations will be handed in to Head of Finance and subsequently Executive Director for approval by the 5th of the following month. The process of bank reconciliation shall entail the following:
  - Secure all monthly bank statements by the 3rd of the following month.
  - Compare transactions in the bank statements against transactions recorded in the cashbook.
  - Compare deposits as indicated in the bank statement with the cashbook. Un-cleared deposits and credits will be shown as deposits in transit (DIT).
  - Compare the paid cheques with entries in the cashbook. Un-cleared cheques and payments will be reflected as outstanding cheques (OC).
  - Observe or note for other reconciling items such as bank charges, interest, withholding taxes, bank debit and credit memos and bank/book errors.
  - Obtain from bank copies of debit/credit memos or similar documents that are not enclosed in the bank statements.
  - Prepare journal entries for other reconciling items.
  - Closing balance cut-off should clearly be stated in the reconciliation if the actual end month date is not used as the cut off.
  - The bank statements should be filed with bank reconciliation schedules and retained for future use.

### **3.5 Foreign Currency Exchanges**

- a) IDF books of account are kept in USD. All payments made in the other currencies are converted to USD using the prevailing rates ruling as of the date of transaction.
- b) All exchange gains or losses shall be adjusted for when reporting in the income and expenditure report. Exchange gains or losses generated from restricted project funds shall be borne by the specific projects.
- c) To control/manage exchange losses, the Accountant & other staff dealing in currency exchanges should always only exchange foreign to local currency for amount enough for the month/activity and vice versa and be watchful to movements in exchange rates in order to properly speculate.

AN  
1/3

## CHAPTER 4: ACCOUNTING FOR PAYMENTS

### 4.1 Introduction

- a) The objective of this policy is to ensure that only properly authorized payments are made, accurate records are maintained and to establish a chain of accountability from the time of voucher preparation until the collection of the cheque.
- b) All disbursements of over USD 100 or the equivalent in other currency should be made by cheque.
- c) The Cheque payment system will be by voucher method characterized by:
  - Verification of documents that support the propriety of the transactions, amount of liability and terms and conditions of payment, account classification and preparation of the voucher.
  - Cheque preparation after the voucher has been properly approved.
  - Using the accounting system in the preparation of the vouchers and recording the transaction to the cash disbursements book / ledger

### 4.2 Payment Requisition Voucher

- a) The buying department/programme/staff should prepare a payment requisition voucher with attached supporting documents (see payment voucher preparation below). The Head of programme then verifies that the payment is within budget limits and budget line before approval
- b) The requisition is then forwarded to the accountant who will review and verify requisition, budgets and supporting documents. Check that the payment is in order, meets all procurement requirements and funds are available (see *procurement for procedures*)
- c) Thereafter, the accountant prepares the payment voucher for payment approval. File all requisitions with the supporting documents in pending file if payment voucher has not been prepared.
- d) A payment voucher and a cheque are prepared when a duly approved and supported *Payment Requisition Voucher* prepared by the requesting department or staff has been received. The requisition should be supported by ANY of the following documents:
  - An original invoice from the supplier attached to a properly approved purchase order & evidence of receipt for the item purchased or satisfactory performance of the service.
  - A properly approved Expense Report with supporting receipts
  - A properly approved request for petty cash fund replenishment
  - A properly approved payroll
  - A properly approved request for cash advances
- e) The preparer should check the amount needed against the line items. If it is not within the approved budget, then consult with the budget holder or his/her duly authorized representative. After review and approval of the voucher by the Accountant, a cheque will be raised and attached to the payment voucher for the signing process to commence. All cheque signatories must approve by signature the payment voucher after reviewing the supporting documents of the cheques.
- f) All the cheques will be entered into the accounting system once approved by the Accountant. The entries must be reviewed by the Accountant before being finalized and reconciled in the system.
- g) The payment voucher should be complete with the following information -voucher/cheque number; Date; Payee; Amount; Description; Account Codes; Subsidiary Reference; Authorized signatures for preparer, reviewer & authorizer; and Exchange Rate if any
- h) All payment vouchers supported with payment documents (original invoices, purchase tender documents, purchase request forms, contract etc.) should be filed sequentially.
- i) All payment vouchers should be pre-numbered and sequentially follow the cheque number used.
- j) At least two (2) cheque signatories shall be required for all cheques raised.
- k) Cheques should be signed only after the official signatory has examined the cheque requisition vouchers and other supporting documents and is satisfied of the completeness of the payment.
- l) Pre-signing of cheques is not allowed except in special circumstances e.g. emergencies.
- m) Cheques drawn to "bearer" or "cash" should not be allowed.

Ar  
IB

- n) Chequebooks, cheque registers and cashbook and all cheques should be safeguarded at all times.
- o) All supporting documents to a payment request should be duly perforated or stamped "Paid" and dated to prevent re-use.
- p) A cheque register detailing the cheque number, payee, date of collection, ID number of person collecting and his/her name and signed by him/her should be maintained.
- q) Person releasing cheque should record details of the cheque and voucher and the person the cheque is released to and his/her personal details. This record should be kept or filed. In the absence of this record, the voucher signed by recipient shall suffice.

#### **4.3 General Payment Controls**

- a) All direct bank payments e.g. telegraphic transfers & bankers' cheques shall be subjected to the above procedures of payment voucher preparation. A letter of transfer to the bank authorizing the transfer shall only be raised and signed after the necessary supporting payment voucher and documents have been approved.
- b) Spoiled or voided cheques should be properly marked CANCELLED, if, retained and filed in the cheque payments filed with the voucher clearly stating the reason for canceling or voiding. If the cheque was already signed, signature should be mutilated
- c) Stale cheques with suppliers must be recalled and letter written to the bank to 'stop payment' on such cheques. Cancelled cheques should be posted to the accounting system, where applicable to reflect their status to avoid future reuse of such cheques.
- d) All bank charges posted to the IDF account must be reviewed against the transactions they relate to by the Accountant to ascertain their eligibility as IDF costs before being recorded.
- e) All payments made from donor funds shall be made as per the agreements with the donor. The finance staff in charge should obtain donor agreements and reference documents to understand and implement the procedures as required. Certain donors do not permit Commingling of funds. Where this is the case a separate bank account for the donor must be opened.
- f) Separate document files shall be maintained for donor payments and all vouchers marked with the donor codes to allow for unique referencing and posting to the accounting system.

#### **4.4 Staff Advances**

- a) Advances to staff can only be made against approved IDF procedures (refer to HR policies manual). Staff can request for personal advances up to 50% of their monthly salary.
- b) Request for personal advances shall be by use of an Advance Requisition Form.
- c) All requests for advances but must be reviewed by Accountant to confirm any pending advances.
- d) The form shall then be channeled to the Head of Finance and Executive Director for authorization. Advances are to be repaid at the end of the month in which the request was processed.
- e) Advances shall only be paid through the approved payment modes-cash or cheques-to staff by the Accountant after the necessary approved staff advance request form has been submitted.
- f) The approved payment shall be posted to Accounts Receivable Account of the requesting staff.
- g) The Accountant must also initial the payment voucher as a confirmation of receipt of request copy for payroll deduction. The Accountant shall charge all personal bills paid by IDF on behalf of the staff to the staffs account maintained by IDF.
- h) Overdue receivables from staff shall be deducted against salary in accordance with IDF's policy.

##### **4.4.1 Imprest and Float to Staff**

- a) Imprest, Float and Advances refers to advances to officers and employees of IDF for various activities and its subsequent liquidations. Request for Travel Advances shall be by use through a fully filled and approved Travel Advance/Float Request Form.
- b) The fully completed form approved by the supervisor shall be submitted to the Accountant at least 2 days before travel date. This is to allow finance office ample time to prepare and review the request for adherence to IDF's policy and for the allocation of funds.

- c) Emergency requirements for travel shall be subject to staff availing properly approved Travel Advance/Float Request Form. Payments for this can be made out of petty cash but should be reimbursed to the cash box by the raising of a cheque payment as procedures requires.
- d) Before approving travel advance request, a supervisor should check that the expenses are per budget, project related, due to IDF and or relate to activity plan for that project in that period.
- e) The Accountant shall process the request by confirming the details, status of previous Imprest and budgets to arrange for the requested amounts the day before travel.
- f) No Imprest shall be approved to staff before the liquidation of previous pending float, unless if staff still has pending Imprest and the activities are ongoing.
- g) All payments for float shall be by cheque (the cheque payment procedures apply). The Accountant shall receive all float requests and make a projection of the total cash required and prepare a cheque in the name of IDF or an approved agent to the bank based on the projection.
- h) Imprest cash withdrawn shall not be mixed with normal petty cash box funds. Imprest cash should be disbursed within the day of withdrawal. Any undisbursed Imprest should be re-banked the following day and the respective float request form cancelled.
- i) Where it is necessary that Imprest cash withdrawn is paid over a period of more than a day, the unpaid cash should be deposited in the safe and a signed certificate of the amount held kept.
- j) The petty cash box shall be operated independently and separated from Imprest/cash box.
- k) The withdrawn cash shall be paid to the requesting staff no more than a day before travel and receipt acknowledged on both the payment voucher and the Float Request Form.
- l) In the accounting system, the Accountant shall establish an Imprest Control account under Accounts Receivable with the names of the staff requesting for Imprest. The Accountant shall post all floats to the respective staff Imprest account in the accounting system.
- m) If the trip or planned activity fails to take place;
  - Return the funds to the Cashier for safe keeping and re-banking.
  - If funds had not been advanced, advice the Accountant to hold the request.
  - The hold request shall only be for maximum 7 days after which the funds shall be banked and a fresh request submitted when activity is rescheduled.
- n) Accounting for the travel advances shall by use of a duly completed and signed **Liquidation for Advances Form**, detailing the various expenses, attached with all the receipts to support all the expenses included on the form and approved by the supervisor.
- o) All cash advances shall be properly liquidated with official receipts/supporting documents within four (4) days from the date the expenses are incurred or upon return from the field.
- p) Where staff has genuinely lost/misplaced receipts or did not obtain receipts for the transaction, he/she will be required to draft a memo explaining that case, have it approved by the line supervisor and attach it as a supporting document to the liquidation.
- q) Any unspent balances of advances should be returned to the cashier who will issue an official receipt that will be attached to the liquidation form as proof of returned cash and banked latest the next banking day. No request for salary deduction for the unexpended balance is allowed.
- r) Re-imburement for expenses in excess of the advanced amounts shall only be processed after the liquidation accounting has been approved. The Accountant will post to the accounting system give a copy of the journal and explanation why the staff spent more than the advance.
- s) All staff will be required to make adequate request for advances, as the use of personal funds for IDF activities and request for re-imburement of such expenses is not advised.
- t) Ageing of advances (i.e. days within which advances should be accounted for/repaid) should be done on a monthly basis. Overdue/un-liquidated amounts should be deducted against the respective staff's salary in accordance with IDF's policy.

#### 4.5 Payments to Consultants, Contractors & Other Third Parties

- a) Payments to contracted third parties will only be made and approved on the following basis;
  - A valid and fully signed contract by both IDF and the third party.
  - An approved report of job satisfaction.
  - A copy of the PIN certificate where applicable
  - A valid copy of registration certificate and or National ID card where applicable
- b) A separate filing system shall be kept for documents and contract of consultants.
- c) All payments to third parties will be subjected to all statutory requirements (by respective governments) including withholding tax, income taxes and other applicable government charges where applicable
- d) Where it is applicable such charges will be deducted from amounts due to third parties and remitted to the respective government agents as required by law
- e) IDF prepares accounts at the year-end of 31st December, to avoid prepayments, all contracts made to third Parties should strictly end on the 31st December unless under special cases. All payments due must be made before these date or accounted for as accrued expenses.



## CHAPTER 5: DEBTORS, CREDITORS AND PROCUREMENT

### 5.1 Debtors (Accounts Receivable)

- a) The accountant is responsible for keeping accurate debtors records and timely preparation and distribution of invoices to debtors to ensure payment promptness.
- b) IDF shall recognize income when the payments are actually received from the debtors (cash basis of accounting). Pledges from fundraising, promised donations and inter-project borrowings should not be recorded as accounts receivables.

#### 5.1.1 Control on Debtors

- a) On a monthly basis, a review of accounts receivable will be done. A sequentially numbered, three-part invoice is then prepared by the accountant and distributed thus: the 1st and 2nd copy sent to the debtors (second copy to be returned by the debtor along with their payment) and the 3rd copy is retained to document the funds to be received.
- b) On a monthly basis, accounts will generate an aged trial balance of outstanding accounts indicating individual invoice information and days outstanding. This will be forwarded to the Accountant for timely collection activities. Write-off authorization will be issued for uncollectible accounts as determined by the Accountant, and approved by the Executive Director and Board.
- c) Where IDF makes payments on behalf of others e.g. tickets, these shall be expensed to that partner's account and recognized as account receivable (from that partner).
- d) An invoice, indicating the nature and details of the payments made shall be raised, approved and sent to the partner for refund.

#### 5.2.1 Liabilities (Accounts Payable)

- a) Liabilities are debts. There are several categories of liabilities, including accounts payable.
- b) The liability arising from the purchase of goods/services on credit is classified as accounts payable and includes amounts owed by the project.
- c) Liabilities should be kept at a minimum level at all times and should be settled as soon as possible. All accounts payable should be reconciled at least once a month.
- d) At the end of an accounting period, some expenses will have been incurred but not yet paid for. These will be brought into the accounts as liabilities.
- e) Where commitments will have been made with suppliers for items financed within the current budget, but not yet paid for, these will need to be noted for inclusion in the reports to the donors as unpaid obligations (liabilities).
- f) All invoices shall be recorded when received in the invoices register, which will be updated when they are paid. At the end of the accounting period, all the unpaid invoices shall be extracted from the register to determine the total liability.

#### 5.2.2 Control over Liabilities

Where the organization is not be able to pay all its bills on time, or has credit facilities, accounts payable account shall be recorded. The amount owed should be recorded in the correct expense accounts, and credit accounts payable instead of a cash account. IDF should not write checks when it does not intend to mail immediately to avoid a loss or stealing if these. Accounts payable should be recorded instead.

#### 5.3.1 Insurance and Risk Management

- a) The Accountant shall be in charge of all insurance matters of IDF.
- b) Before 1st January of each year the insurance company through a broker contracted by IDF shall provide cover notes and confirmations for all policies held, which shall be filed and properly referenced by Accountant.

AN  
IB

- c) The Accountant shall ensure that all the necessary policies are in place at all times and any new adjustments within the years of insurance due to acquisition, disposal or change in risk factors and amounts are effected with the insurance firm immediately to avoid any insurance losses.
- d) The Accountant shall lodge any claims due to insured losses immediately such a loss is incurred and adequate compensation done by the insurance firm.
- e) The Accountant shall ensure that all premiums are paid on time and only after receipt of Debit Notes from the insurance firm.

### 5.3.2 Internal Control and Procedures'

- a) An adequate annual insurance program should be maintained. Decision of insurance should be based on the degree of exposure to risk, assets value & the cost of insurance.
- b) Every year (or at any time new assets are acquired) the Director together with the Accountant should analyze IDF assets to determine the values at risk, nature and degree of exposure.
- c) A listing of all property and equipment indicating their location and exposure to hazards (i.e. fire, flood, earthquake and other natural calamities or own damage). This may be done through the assistance of an insurance appraiser.
- d) Additionally a list of all liquid assets and the degree of exposure to risks (e.g. theft, fraud etc.) as well as other risks or liabilities arising out of their use or maintenance should be maintained.
- e) Avail the services of an insurance broker to identify appropriate insurance carrier, based on financial stability, service and record of settlement of claims.

## 5.4 Procurement and Stocks Management

### 5.4.1 Introduction

- a) This policy seeks to establish a sound and transparent system of materials and services acquisition and control. It provides guidance on the legitimate procedures of acquiring materials and services required for program and projects implementation.
- b) IDF can acquire materials & services through tendering; seeking quotations and or cash based depending on varying circumstances. A minimum of three (3) quotations is required; any single sourcing must be approved by the Executive Director stating the reasons thereof.
- c) A procurement committee shall manage all procurements. The committee shall approve requests, solicit quotations, and analyze quotations to select suitable supplier and order items.
- d) A minimum of one week is required to complete a procurement process but staff members are encouraged to provide as much time as possible in order to have the goods delivered in time.

### 5.4.2 Tendering, Bid Analysis, Order and Delivery of Goods/Services

- a) IDF shall invite tenders for the supply of materials and services required by the organization whose value is USD 5000 and above. Invitation is by posting of notices in notice boards, media or delivery of the same to prospective suppliers/merchants.
- b) A minimum of three quotes from suppliers is required. Quotations should indicate among others the item number, item name, item details (specifications), quantity and unit costs and total costs. The prospective suppliers must submit their tender bids within the stipulated time and in the prescribed manner.
- c) The prospective suppliers must submit their tender bids within the stipulated and in the prescribed manner. Late tender bids would not be honored
- d) A day shall be set aside for the opening of tenders. IDF procurement committee will meet and open quotations and evaluate then based on competitive terms. The most competitive bidder in terms of quality, cost and delivery time would be awarded tender.
- e) The procurement committee is required to document their selection criteria by way of preparing an analysis of tenders detailing suppliers, price comparisons and unique features of a quotation. The document shall state the reason for selecting a supplier and any further follow-ups.
- f) The procurement committee must approve all requisitions based on approved budgets.

- g) Once a merchant has been identified an L.P.O is written to them requiring him/her to supply the said materials. The order should contain the date of order; quantity and quality of the materials/ services ordered; time period within which the materials/service should be delivered; how/where the materials/services should be delivered at and or any other necessary conditions.
- h) The LPO should be pre-printed and shall be raised in triplicate & authorized by the Executive Director or his/her designate. The copies shall be distributed thus: original to the supplier; one copy for processing the payment and other as book copy
- i) The person/organization awarded tender shall be expected to supply the products or services when needed by IDF. IDF with sufficient reasons to do so may cancel a tender awarded to a supplier. Some of the circumstances that may lead to tender cancellation include:
  - When the supplier has no capacity to supply the goods/services.
  - When the quality/specification of the materials/services is compromised.
  - When the supplier engages on corrupt deals/cheating.
  - Delay in supply of the goods/services.
  - When the supplier hikes the prices unreasonably without consultation, or if the supplier is too high vis- a-vis the market rates (with or without consultation).
  - Board, staff and relatives of IDF shall be ineligible for tendering & quotations.

#### 5.4.3 Delivery of Goods and Services

- a) The supplier will deliver the goods or services with a delivery note which the receiving staff of IDF shall sign after ascertaining that the goods/services delivered are as ordered checking the quantity, quality, invoice price and other LPO conditions.
- b) The requisitioner shall be required to receive the goods and confirm that they agree to the LPO issued & sign the delivery note (together with the store man).
- c) The delivery note shall be distributed thus: original to accounts as a supporting document; 2nd copy to be used for processing the payment and the book copy to be kept in the store.
- d) On delivery the supplier will be required to present an invoice to IDF for payment. A copy of the LPO issued to the supplier by IDF will be attached to the invoice.
- e) The payment to the supplier will only be processed upon indication of satisfaction by the program or unit that the items/services were procured for and delivered to.
- f) All consultancy services shall be approved by memo, email or contract approval by the officer in charge indicating satisfaction of services rendered or job done.
- g) All delivery documents shall be submitted to finance for payment processing.
- h) Payment is done after the supply of materials/ services or as agreed by the two parties and shall only be made if all the procurements conditions, procedures & requirements have been met. Before processing procurement payment, finance unit should ensure a minimum of the following;
  - The purchase satisfactorily went through the whole procurement process
  - All levels of authorization were properly done.
  - Budget conditions have been met.
  - Quotation analysis report or tender report is availed.
  - Deliveries of procured goods/services have been documented and approved.
  - Purchase orders were properly raised and approved.
  - Goods/services ordered for were delivered as ordered.
  - Invoices and other bills have been received.
  - Procurement needing installments before delivery is authorized by Finance Head & Director.

## **5.5 Stocks Management**

### **5.5.1 Receipts of goods into stores**

- a) The storekeeper/officer concerned should inspect the condition and specification of goods received into stores with details on the supplier's invoice, LPO and delivery note.
- b) A stock card/book shall be maintained for all items detailing the Quantity in stock; Usage; Requesting unit/program; Quantity available for issue and Item price. The delivery note shall be used to update items on the stock card/book.
- c) Regular counting of stock shall be conducted to ensure that optimal stocks of items are held at any time. The stock count should be documented on a stock count sheet and used to manage procurement orders.
- d) The staff in charge of the store and an assigned finance staff shall be required to conduct a stock count every last day of the month and file a signed return with the Accountant.

### **5.5.2 Dispatch of goods from stores**

- a) A duly authorized stock transfer form supported by a dispatch note or stores requisition outwards must accompany all stock movement.
- b) A record of all stock movements should be kept at the store and daily movements should be agreed to dispatch notes.

### **5.5.3 Other controls and procedures**

- a) Damaged, obsolete, slow moving stocks should be segregated so that these can be properly accounted for and recorded.
- b) Cut off procedures should be observed so that documentation concerned with the flow of goods can be reconciled with the memorandum stock records.
- c) Differences between physical quantity (per stock take) and record balances, if any, should be noted and reconciled or explanation noted.
- d) Dispatch Note/Stores Issue Vouchers should only be prepared against properly approved requisitions by user Units/Programs.
- e) Integrity of the numerical sequence of dispatch notes/stores issue vouchers and stores requisitions should be properly controlled.
- f) Stores should be protected by adequate physical safeguard to prevent theft or unauthorized removal of goods, additionally, access to stores should only be allowed to authorized persons.

## CHAPTER 6: MAINTENANCE OF ACCOUNTING RECORD

### 6.1 The General Journal

- a) The objective of this policy is to ensure that accurate records are maintained for all items of original entry not otherwise recorded in the Cash Receipts or Cash Disbursements books.
- b) All Journal Vouchers raised should be numbered consecutively, be per the authorized format and properly signed by the preparer, reviewer & authorizer.
- c) Supporting documents should be attached to the voucher and stamped as POSTED (for nonpayment entries) or PAID (for payment adjustments).
- d) The Journal Voucher shall be used to record amongst others Liquidation of cash advances; Depreciation of fixed assets; Payroll and fringe benefits distributions; Bank reconciling items such as bank debit and credit memos; Investment transactions; Expensing prepayments; Accrual of revenues and expenses; Foreign currency transactions such as foreign exchange gain or (loss); Expense and/or overhead allocations and Adjusting and correcting entries;
- e) The Journal Voucher should be completed with the following information: Date; Account codes; General ledger reference; Description or explanation; Amounts; Signature of preparer & approving authority as well as Stamped supporting documents.
- f) The Accountant shall post properly approved journal voucher into the accounting system. A system printout of the journal shall be attached to the approved journal voucher and filed. Journal Vouchers generated should be filed sequentially together with supporting documents.

### 6.2 Control Ledgers

Control books contain the totals of subsidiary accounts, the detail of which is reflected in their respective accounts in the General Ledger. Subsidiary Ledgers should be maintained for the following:

- a) Accounts Receivable/Advances to Officers and Employees (Balance sheet item)
- b) Property and Equipment (Expense)
- c) Accounts Payable (Balance sheet item)
- d) Deposits and Prepayments

#### 6.2.1 Internal Control and Procedures for Accounts Receivables

- a) The subsidiary ledgers should be updated on a daily basis and reconciled with the controlling account in the General Ledger. An Imprest account shall be created for each staff and all floats and advances to staff for activities of IDF shall be entered into each staffs account.
- b) Surrenders /liquidations of floats and advances shall be made from these accounts on submissions of documents by staff and Statements for each account shall be prepared every month and disbursed to the Staff by the 15th of each month. Any disputes with the statements amount shall be resolved immediately with the respective Accountant.
- c) The Accountant shall review these statements before they are released to the debtor. Each statement shall be returned to the Accountant signed by the debtor as agreement that the statement reflects the correct amounts owing. Staffs are encouraged to keep private records of their accounts receivable transactions for comparison to such statements before approving them.
- d) This Statement and enclosures will be considered correct unless advice to the contrary is received within 1 month from the receipt of the statement. Ageing of Receivables should be done on a monthly basis to check on accountability requirements.
- e) Finance should follow-up outstanding account as soon as they fall outside the repayment terms.

### 6.3 Year End Adjustments: Accruals Prepayments

This process is done to ensure that the account include all transactions for the year. Adjustments are also necessary for payments made in advance. The same reasoning applies to income.

AN  
13

- a) Adjustment for "accrued" expenses: An accrual is an amount owed for services and or goods received but for which an invoice has not yet been received from the supplier. All expenses incurred but not yet settled should be determined and included in the accounts.
- b) Adjustments for "prepaid" expenses: A prepayment is an amount paid in advance to a supplier for goods/services to be received at a later date. Examples of prepaid expenses are rent and insurance. Only the portion of prepaid expenses that relate to the reporting period should be included in the reports under accrual basis of accounting.

#### 6.4 The Trial Balance

- a) The trial balance is a periodic statement prepared after all transaction entries have been made into the accounting system that lists all of the balances in the ledger. It is recommended that it should be prepared at the end of every quarter and year.
- b) The trial balance is intended to test that the debits and credits agree, if they are not then there is a problem. A logical approach to finding possible mistakes leading to the difference is:
  - i. *Add up* the trial balance again to check on its arithmetic accuracy.
  - ii. *Glance* quickly at the items on the trial balance, to see if any balance is obviously incorrect e.g. figures obviously too large/small; figure written down on the wrong side; items recorded as a credit balance instead of a debit & vice versa; missing balances etc.
  - iii. *Check* the balances on the ledger accounts with the trial balance. It is important to work from the ledger to the list, as a balance may have been missed out.
  - iv. *Check* that the balances in the ledger do not include items relating to the period after the closure of the annual accounts.
  - v. *Check* all the additions in the ledger then those of the cash book, also in the journal.
  - vi. *Check* all the postings - from the cash book to the ledger, and between ledger accounts as per the journal. Tick off each checked item as you go along; if there are any entries that are not ticked these should be investigated. Something not posted? Posted twice? Or an inexplicable jotting? Correct, and adjust the trial balance.
  - vii. *Check* correctness of the opening balances from the previous accounting period. Have any balances on the previous balance sheet not been carried down in the ledger? Are there any incorrect opening balances? Correct any mistakes.
  - viii. *If there is still a difference* - and you are certain that you have adjusted the trial balance for all mistakes so far found - do not work all hours of the night looking for the difference. Your brain will be tired.
  - ix. *Take a break* then try again, starting at (a) above. It is helpful to ask someone to call out the figures for you

## CHAPTER 7: PROPERTY AND EQUIPMENT MANAGEMENT

### 7.1 Introduction

- a) Assets and property shall include Computers, motor vehicles, furniture and fixtures and others that fit the definition of an asset or property.
- b) The objective is to control the use, receipt and disposal of each type of property and equipment and its balances in the books of account.
- c) It is the policy of IDF to expense all amounts spent in acquiring assets and other property but control the use and custody through the asset register.
- d) All property and equipment including all electric and electronic items valued in excess of US\$ 200 shall be identified at the time of receipt. An inventory number shall be assigned & affixed to the property/equipment using painted numbers, adhesive labels or any comparable identification tags. The number will indicate IDF reference number.
- e) The Accountant/Logistics Officer shall be responsible for the receipt, issuance, maintenance, movement, transfer and disposal of all property and equipment as well as the maintenance.
- f) There shall also be maintained by the logistics officer/Accountant an inventory listing/register of all property and equipment by numerical order, by location and/or by category. The two shall also be responsible for updating of records of all property/equipment in the fixed asset register.
- g) An accountability form shall be prepared on the issuance/assignment of the property or equipment to any user. Transfers and movements of the property and equipment should be the responsibility of the Logistics Officer under the supervision of the Accountant.
- h) Periodic physical inventory of property and equipment should be conducted every end of the financial year and reconciled with the asset register/inventory listing.

### 7.2 Acquisition of Fixed Assets and Property

- a) Property and equipment are tangible assets, including buildings, land improvements, furniture & fixtures, computers, equipment and vehicles with an estimated useful life of more than one year.
- b) Capital Expenditure (CAPEX) covers all purchases of property, plant and equipment with a value in excess of US\$ 700 or the equivalent in other currencies. This also includes lower value items but with a useful life of more than one year, quantity purchases of replacement items (e.g. car engine) and/or improvements with a combined value in excess of US\$ 700
- c) A Request for CAPEX is done by the requesting programme using a Purchase Requisition form, which must be completed in triplicate together with appropriate supporting justification details and approved by the programme head and Executive Director. Such requests must certify that the requisition meets all the requirements and procedures of procurement.
- d) The approved requisition is used to raise a Local Purchase Order which is distributed thus: White copy to Accounts; Pink copy to supplier and Book copy remains in the requisition book/filing.
- e) Payment for the acquired asset shall be made by cheque and can only be processed when the following are met and presented to finance;
  - Minimum of 3 quotations supported by ail correspondences requesting for quotations.
  - Quotation analysis cover letter detailing at least 3 reasons in favor of the successful bid.
  - LPO from the supplier & Delivery note, duly stamped received by authorized IDF officer. Invoice from supplier stamped for asset capture in the asset register by the Logistics officer.
  - Approval by the purchasing department/programme.

### 7.3 Disposal of Property and Equipment

- a) IDF assets may be disposed through either sale, transfer to projects or donations to other parties. The board should properly authorize any such disposal. A pre-numbered disposal form shall be completed by the responsible staff and approved as above. The form shall include information of the asset description, date/cost of acquisition, bids received if any as well as the reason for disposal.

- b) Sales of asset should be on a competitive bid basis where possible and be documented by a letter to the buyer and a deed of sale signed by Board chair. Unserviceable or junked items of property and equipment may be disposed in bulk on a “where is, as-is” basis upon approval of the board.
- c) A copy of disposal form shall be forwarded to finance/accounting department and attached to the applicable cash receipts. A numerical file of all disposal forms supported by an official receipt for sale proceeds shall be maintained by the accountant in charge.
- d) The property and equipment register shall be marked DISPOSED, SOLD or DONATED upon disposal with clear reference to the sale documents.

### **7.3.1 Other General Controls over Property.**

- a) Fixed assets should be accorded adequate physical control and be adequately covered by insurance. Management follow-up on any assets reported as missing or damaged.
- b) Documents of title should be kept in safe custody by the Accountant and controlled by register.
- c) A fixed assets register shall be maintained and should provide the following information on each item: Place/staff assigned; Type of asset; Identification/serial/plate number; Date of acquisition; Acquisition cost; Asset condition/status and where applicable the Date and cost of disposal
- d) An alphanumeric fixed assets code number is recommended for IDF. Each item in the code number signifies the location where the fixed asset exists; Specific location of the fixed assets in the Office of IDF; The type of fixed assets and Assets identified number.
- e) Once code numbers are assigned to the fixed asset as indicated above they will be entered in the appropriate space in the fixed assets register and the number written/tagged on the fixed asset.
- f) All assets purchased by IDF for use by partners and or staff in implementation of IDF activities shall be (unless otherwise stated in the agreement) registered in the name of IDF and shall be the property of IDF/donor. The donor shall be responsible for the security of the assets.
- g) The partner shall have no authority over the disposal of the asset and shall use the asset only for the benefit of implementing IDF activities unless authorized otherwise by the Chairperson.
- h) Assets held by 3rd parties shall be documented in the IDF asset register. The logistics officer shall from time to time inspect and report to IDF the status of these assets. Any reported misuse of IDF assets shall lead to the recalling of such assets from the affected partner.
- i) Physical verification shall be conducted every end of the year and a report issued on the status of the assets by the Accountant.

### **7.4 Controls over Motor Vehicles**

- a) Every vehicle must have a work ticket (log-sheet), kept in the vehicle. The work ticket should have columns for recording e.g. the starting & closing mileage, purpose of the journey, officer approving the journey, Quantity of petrol bought, name of the driver etc
- b) At the end of every month, a summary should be made of the mileage covered, fuel consumed and servicing or repairs done. From these statistics, it is easy to determine the areas where heavy costs are being incurred and corrective action taken promptly.
- c) All IDF's vehicles must be registered in the name of IDF and not in any individual's name. The Board of Directors must authorize exceptions.
- d) IDF's name and logo should be on all its vehicles. IDF vehicles should as much as possible be housed at office and be fully insured and depreciated accordingly.
- e) Where applicable, vehicle acquisition, use and disposal must follow the donor contractual agreement where purchased for a specific program or project of that donor
- f) IDF vehicles should be used strictly for official duties; any unauthorized personal use will be charged at agreed rates per kilometer. In case of misuse, offenders shall be surcharged in addition to any other disciplinary action, which may be taken against them. The accountant should ensure vehicles are properly managed by:

AN  
IB



- Keeping vehicle maintenance and repairs record including service history or replacements plans.
  - Ensuring that basic regular servicing is done
  - Writing up of work ticket whenever the vehicle is used
  - Following a clear procedure for buying and recording fuel usage
  - Establishing a known procedures for reporting problems
  - Clearly spelling actions to be taken in the event of accident
  - Setting up rules for personal use of IDF vehicles
- g) Undertaking regular review of work ticket to know how vehicles are used Carefully planning the usage of all vehicles with the staff and Establishing a clear procedure for authorization and usage
- h) To manage motor vehicle related risks, the accountant should keep up to date insurance coverage; maintaining all vehicles in a good working conditions; ensure safe packing of vehicles; carry only authorized passenger or goods and in the right quantities; maintain safe speed and ensure all vehicle occupants must belt up while travelling.

### 7.5 Depreciation

IDF will maintain a depreciation schedule. The annual depreciation will be based on the full acquisition cost of the assets, net of its residual value. The rate will apply from the year of acquisition until it is disposed, written off or fully depreciated, which ever occur first.

For motor vehicles already expensed, a ' car account' will be opened into which it will be credited with mileage when the car is used for IDF work and debited with expenses incurred on the vehicle e.g. fuel, vehicle service etc

Depreciation is computed used the straight-line method as follows

ASSETS	Approximate useful life	Approximate percentage
Buildings	30 to 40 years	2.5
Furniture and office equipment	3 to 4 years	33 1/3
Property, plant and equipment	6 to 8 years	12.5
Motor Vehicles	4 to 5 years	25

Am  
13

## CHAPTER 8: FINANCIAL REPORTING

### 8.1 Monthly Financial Reporting

- a) Financial reporting shall be done as per approved formats; these budgeting formats.
- b) The Accountant shall submit to the Head Director reports on a monthly basis. All months are closed on the last day of the following reports shall be prepared monthly:
  - **Monthly Financial Report:** Financial reporting formats;
  - Budget formats for tracking purposes. The reports are based on actual expenditures. The Accountant submits to the program officers reports on a monthly basis. All months are closed on the last day of the month.
  - **General Ledger Report:** This report should be prepared and or reviewed by the Accountant prior to producing the balance sheet and statement of activities. The General ledger report should include all accounts that have registered activity during the current fiscal year.
  - **Budget verses Actual Expenditures Reports:** At the end of every month the Accountant will prepare a budget vs. actual analysis report for the Project officers, Program manager, Head of Finance & Executive Director. By the 7th of the next month, explanations of the variances above 10% shall be done by the project officers and submitted to the Accountant.
  - **Budget variance explanations** should be provided for all items above or below 5% of the budget. Narrative reports detailing the activities of the project as implemented shall accompany such reports for review and synchronization by finance.
- c) This will serve as information to managers in managing expenditure, forecasting and activity planning. This can also serve as notes to monthly financial reports prepared by finance.
- d) Completed reports should be distributed to the board, management and other staff as it has been deemed appropriate from time to time.

### 8.2 Financial Statements

IDF shall as per requirements of NGOs financial reporting and in conformity to International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) publishes a statement of financial position, and a statement of cash flows and a statement of income and expenditure at the end of every accounting period. These are explained thus:

- a) **Statement of Financial Position (Balance Sheet):** The primary purpose of the statement of financial position is to provide relevant information about the organization's assets, liabilities, and net assets and about their relationships to each other at a moment in time. It shall report the amount for each of two classes of net assets - temporarily restricted net assets, and unrestricted net assets - based on the existence or absence of donor-imposed restrictions.
- b) **Statement of Cash Flows:** The primary purpose of cash flows statement is to provide relevant information about the cash receipts and cash payments of the organization during a period.
- c) **Statement of Income and Expenditure:** Its primary purpose is to provide relevant information of changes in the income, expenditure and capital resources of the organization during a period.
- d) **Statement of Functional Expenses (Summarized by Program Totals)** - presents the expenses of the organization in both a natural, or objective, format and by function (program of unit served)
- e) **Other Statements/Supporting Schedules:** Bank reconciliations; Schedule of grants/incomes; Assets register; Schedule of advances to staff; Schedule of accounts receivable; Schedule of prepaid expenses; Schedule of accounts payable & accrued expenses and Schedule of gifts and donations.

**Note:** Donor reports fall due on different dates depending on contractual agreements. Care must be taken to deadlines, formats and or terms. Separate financial reports should be prepared for each donor project and consolidated for IDF programs as a whole.

### **8.3 Other general Reporting Policies**

- a) IDF undertakes to provide & share information and reports to its beneficiaries and stakeholders in a beneficial and regular manner. In this respect IDF shall develop mechanisms to:
  - Allow its stakeholders to have access to its project progress reports and financial statements.
  - Develop financial procedures and accounting systems to regulate its financial practices.
  - Provide timely feedback and updates to beneficiaries on projects affecting them.
- b) IDF shall also pursue policies for a participatory approach and maintenance of mutual accountability with stakeholders and staff. In this respect, IDF shall enact mechanisms for:
  - Responsibilities for regular preparation of activity reports.
  - Publication and Dissemination of information regarding its operations.
  - Flexible report formats that respond to information requirements of the Stakeholders.

#### **8.3.1 Responsibilities of the preparation of report**

- a) The ED shall oversee the preparation & publication of annual reports (for internal & external use).
- b) The reports shall contain all information relating to ongoing or completed activities and it intends to give a picture of the situation of the organization to the BOD as well as the stakeholders.
- c) The Board chair, with the help of the other BOD members shall report to all members at the end of every year.

#### **8.3.2 Regular preparation of activity reports**

- a) The finance unit shall prepare monthly financial reports and submit these to the ED
- b) The program coordinator/ manager on the other hand shall oversee the preparation of project-based activity reports on monthly basis.
- c) These reports should present a section on how the beneficiaries were involved in the various activities of IDF.
- d) The program coordinator and the finance manager shall also jointly prepare a consolidated bi-annual, annual and midterm & end of project reports.
- e) Once in six months, IDF shall conduct a beneficiary's mass rally/meeting to disseminate information by explaining sections from reports described in this procedure.

#### **8.3.3 Reporting Formats**

In order to apply the preferable reporting systems of the key stakeholders, IDF shall discuss/ negotiate with donors as far as possible to adhere to IDF's agreed reporting formats?

- a) IDF shall maintain a report format-keeping file both in a hard copy and a soft copy.
- b) Training courses shall be organized to make people be familiar with use of IT skills in report writing and in entering, storing retrieving and analyzing data.
- c) All staff are encouraged to make use of IT to produce easy to read and understand reports by employing relevant graphics such as graphs, charts and other useful pictorials.

## CHAPTER 9: EXTERNAL AUDIT

### 9.1 Introduction

- a) IDF recognizes the importance of a dynamic internal auditing system in order to achieve a credible financial discipline by applying checks and balances.
- The BOD shall in its first annual Meeting nominate a qualified auditor who shall be approved by the quorum present on a simple majority vote.
  - The BOD provides the Auditor with clear written terms of references and reporting schedule.
  - The auditor shall report to the boards finance committee which shall be headed by the Chairman of the Board. The subcommittee shall meet once in three every three 3 months.
- b) External audits are conducted annually and review IDF's accounting and internal control systems with an aim to ensure that:
- The financial statements fairly, in all material respects, presents the financial position of IDF and the results of all activities & cash flows for the year then ended;
  - The financial statements agree with the accounting records and reflect a true and fair picture of the operations of IDF over that accounting period.
  - The financial statements are prepared using appropriate accounting basis & policies applied, consistently and comply with statutory requirements and the GAAPs;
  - Proper accounting records have been maintained;
- c) The Board shall appoint the external auditors from amongst the reputable audit firms, and it shall be the duty of the Accountant to arrange with the appointed auditors when the annual audits should be carried out. The Accountant shall then ensure that:-
- All audits schedules as required by external auditors are prepared on time.
  - Accurate and reliable financial statements are prepared.
  - The auditors receive information and explanations necessary for audit.
  - Corrective actions are taken regarding the auditor's management letter and that a reply to the letter is prepared in time for discussion by the Board.
- d) The Board will then discuss the management letter with the auditors and the Director. The latter shall ensure that corrective actions taken are communicated to the auditors
- e) The Auditor shall be responsible for reviewing, discussing and promptly reporting as appropriate to the BOD in relation to the following areas:
- An evaluation of the completeness and timeliness of financial information and assist IDF to ensure the delivery of relevant, reliable and timely reports to external end users.
  - Review the adequacy of financial statement disclosures.
  - Discuss the nature and extent of any potential adjustments arising from classifications or additional disclosures raised by the auditors.
  - Evaluate the capability of financial accounting management suggest means of filling noted gaps per the management letter.
  - The detailed auditor's recommendations for improving internal control and monitor management's response to those recommendations.
  - Assess the adequacy of IDF's financial plans.
  - Prepare a certification letter of every audit activity.
  - To make auditing to all fixed assets and conduct inventory control of the Organization.

### 9.2 Audit Time Table

The following audit schedule will be followed for all organizational wide annual;

- Initial risk assessment - 1st week of March
- Start of Audit - 2nd week of March
- Initial draft of financial statements - 1st week of April
- Final draft of Financial statements - 1st week of April \*

\*Depending of time of responding to audit queries/requirements of the auditor.

AN  
IB

Project audits may however follow agreed timings with the donors taking account of the running period and end dates of any such projects.

### 9.3 Basic Year-End Audit Requirements

- a) Financial Statements (Income & Expenditure, Balance sheet and Cash flow reports).
- b) Budgets, Grant Agreements/Contracts for revenues recognized in the current year.
- c) Summary of Revenues received,
- d) Documentary requirements (rental agreements, insurance policies, bank statements, collaborating agency agreements, etc.)
- e) Supporting Schedules including (a) Schedule of Incomes (b) Schedule of Contributions Receivable (c) Schedule of Accounts Receivable (d) Schedule of Advances to Officers and Employees (e) Schedule of Prepayments and other Assets (f) Schedule of Accounts Payable and Accrued Expenses (g) Schedule of Other Liabilities (h) Summary of Expenses (i) The general ledger (j) Bank reconciliations (k) Confirmation request for banks, grants receivable, accounts receivable, advances, accounts payable and accrued expenses and (l) Assets register
- f) Trial Balance

#### 9.3.1 The Methodology

- a) The auditor shall conduct his/her duties in a just and transparent manner with no ill motives of finding faults but with objectivity to find facts.
- b) The auditor shall employ sampling techniques and follow a schedule /plan to ensure that all areas of auditing are covered
- c) The auditor shall record all observations and collect supporting evidence to justify any act or incident of non-conformity. Throughout the auditing, the auditor shall use professional interpersonal communication to command cooperation rather than cause confrontation.
- d) In his/her report the auditor shall present observations, evidences by using narrative style as well as by using figures where the emphasis will be a professional language rather than sensational language.

#### 9.3.2 Audit Reporting

- a) The Auditor shall receive and consider reports from different units of IDF.
- b) The Auditor shall report its activities to BOD.
- c) As required by the Financial Management Standard, the Auditor shall provide to BOD as soon as practicable after the conclusion of each financial year, a report about the financial activities of IDF.

#### 9.3.3 Liaison with External Auditors

Where applicable, IDF shall hire the services of an internal auditor who shall amongst others;

- a) Discuss the nature of audit procedures to be performed including coverage of various transactions and balance sheet.
- b) Review draft external audit reports and management letters.
- c) Monitor policies prohibiting fraud and illegal acts.
- d) Develop conduct policies where inadequate.
- e) Perform or supervise special investigations
- f) Reviewing policies to avoid conflicts of interest and reviewing past or proposed transaction between the IDF and members of management.
- g) Assessing the performance of financial management.
- h) The Auditor will disseminate findings of external audit and the action | in the respect of those findings, including an assessment that the proposed solution is the most appropriate and cost-effective.
- i) An internal auditor has no power to direct the external audit function or to review the external auditor's working papers and files. However s/he will act in a facilitating role to ensure that, to the extent practicable, an integrated internal/external audit process occurs to ensure a quality audit process at reasonable cost.

AN  
13



## INTEGRATED DEVELOPMENT FOCUS, SOMALIA - IDF-S

**Facilitated by:**

Inter-riverine Research and Consulting  
Waiyaki-way ,Heavens court  
P. O. Box 29220- 00100, Nairobi, Kenya  
Tel: +254 715 777 7351 +254 722 914450  
E-mail: [interiverine@gmail.com](mailto:interiverine@gmail.com) ,[alansho114@live.com](mailto:alansho114@live.com)

Ar  
13