



LUTHERAN
DEVELOPMENT
SERVICES



Finance Manual



Approved by LDS Board on
28th November 2020

This version replaces all previous versions

Table of Contents	Page
1. INTRODUCTION	7
1.1 Purpose.....	7
1.2. Objectives of the Policies & Procedures.....	7
2. Accounting System.....	8
2.1 Basis of Accounting.....	8
2.2 Accounting Software.....	14
2.3 International Accounting Standards.....	14
3 Risk Management.....	14
3.1 Introduction	14
4 INTERNAL CONTROL SYSTEM.....	20
4.1 Definitions and Key Considerations.....	20
4.2 Types of Internal Controls	20
4.3 Risks Management.....	Error! Bookmark not defined.
4.5 Financial Risk Matrix.....	Error! Bookmark not defined.
4.6 Compliance with Internal Control Systems.....	25
5. BUDGETS.....	37
5.1 The Role of Budgets.....	37
5.2 Approaches to Budgeting.....	37
5.3 Budgeting for LDS Projects.....	37
5.4 The Budgeting Process	38
5.5 Budget Check List.....	39
Budget Check List.....	39
5.6 Using the Budget to Monitor and Control Expenditure.....	40
6 REPORTS FOR COUNTRY MANAGEMENT.....	40
6.1 Who Needs Financial Reports and Why?	40
6.2 Management Reports for submission	41
6.3 Monitoring Reports – Monthly Quarterly and Annually	41
6.4 Deadlines for Submission	42
6.5 Contents and Purpose of Each Report.....	42
6.6 Check List for Month End Processing.....	43
6.7 Check List for Month End Reports.....	45
7. REPORTS TO DONORS	46
7.1 Donor Reporting	46
7.1.2 Donor Reports	46
7.2 Check List for Financial Reports for Donors	46
7.3 Other Users of Reports	46
8.2 Anti-Terrorist Clause.....	47
9. Year End And External Audit.....	48
9.1 Prior to Year End	48
9.2 Deadlines for Annual External Audits	48
9.3 Check List of Tasks Prior to Year End.....	48
9.4 Selection of External Auditors	50
9.5 The Audit Report	50
9.6 Distribution of Audit Reports	50
9.7. Audit Report Format	50
9.8. Check List	50
2.1 Statement of compliance	53
2.2 Basis of preparation.....	53

Table of Contents

	Page
2.3 Restricted and unrestricted funds	54
2.4 Foreign currency transactions	54
2.5 Revenue and expenditure recognition	55
2.6 Cash and cash equivalents	55
2.7 Accounts receivable.....	55
2.8 Inventories	55
2.9 Fixed assets.....	55
2.10 Fixed assets - depreciation	56
2.11 Impairment.....	56
2.12 Provisions.....	57
2.13 Reserves	57
2.14 Employee benefit costs	57
3.18 Taxes.....	57
3.19 Financial risk management	57
10. Internal Audit in LDS	58
11 Core Costs (Overheads)	58
12 Official LDS Rates	59
12.2 Exchange Rates for Monthly Financial Transactions	60
12.3 Exchange Gains and Losses.....	60
12.4 Converting to Local Currency.....	61
13 Reserves	61
13.2 Specific Reserves	62
14.1 Definition.....	63
14.2 Accounting Treatment	63
14.4 Fixed Asset Register.....	64
14.5 Annual Physical Inventory	64
14.6 Land and Buildings	64
14.7 Disposal of Fixed Assets.....	64
14.8 Hiring of LDS Assets to Projects	66
15 LDS Procurement Policy.....	66
15.1 Day to Day Operation.....	66
15.2 Authorisation Limits	66
15.3 Donor Requirements.....	68
15.4 International Procurement.....	69
16. Insurance	69
17 Banks	69
17.1 Selecting Banks	69
17.2 Opening Bank Accounts.....	69
17.3 Bank Mandates.....	70
17.5 Currency	71
17.6 Interest Earnings.....	71
17.7 Internet Banking.....	71
17.9 Bank Reconciliations	72
17.10 Bank Overdraft or Loan	73
17.11 Bank File	73
17.12 Annual Summary of Bank Accounts to be Submitted For Audit	73
18 Cash Handling Policy.....	73
18.1 Imprest System for Cash Floats and Petty Cash.....	73
18.3 Cash Payments	74

	Page
18.4 Cash Receipts	74
18.5 Cash Counts	74
18.6 Cash Limits.....	75
18.7 Security.....	75
18.8 Cash for Remote Projects	75
19 Payments	76
19.3 Transfers Between Bank and Cash Accounts	79
20.1 Assessment of Potential Partners	80
20.2 Written Partnership Agreement	80
20.3 Accounting Treatment	81
20.4 Minimum Criteria for Local Partner Selection	81
AND.....	82
21.1 Personal Advance	85
21.2 Work Advances	86
Example Work Advance Request	86
21.3 Currency of Advance	87
21.4 Termination of Service	87
22. TRAVEL.....	87
22.1 Air Travel.....	87
22.3 Travel Expense Reimbursement.....	87
22.4 Travel Approval.....	88
22.5 Duty Travel Funded by Other Organisations	88
23.1 Payroll System	88
23.2 Processing the Payroll	88
23.3 Payroll Disbursements	89
23.4 Payroll Journal	89
23.5 Payroll Files	90
24 National Staff Personnel Policy	90
25 Vehicle Management Policy	90
25.1 Vehicle Policy	90
26. ARCHIVING & FILING.....	91
26.1 Filing Systems.....	91
26.2 Retention and Storage of Documents	91
27 Staffing of the Finance Department.....	92

Accpac	The accounting software used by LDS
AMR	Annual Monitoring Report
CBO	Community Based Organisation
CHF	Swiss francs
CS	Country Strategy – the wide framework providing the setting and overall direction for LDS
ECHO	European Commission Humanitarian Aid Office
FAQs	Frequently Asked Questions
FAC	Finance & Administration Coordinator or the most senior position in the Finance Office
HR	Human Resources
IAS	International Accounting Standards
IRDP	Integrated Rural Development Project
LDS	Lutheran Development Services
MoU	Memorandum of Understanding
NGO	Non-governmental organisation
PC	Program Coordinator
PD	Project Document – the detailed plan for each project component that makes up the country programme
Pledge	A promise by a donor to provide funds - also referred to as an “Assurance”
QMR	Quarterly Monitoring Report –
UNHCR	United Nations High Commission for Refugees
USAID	United States Agency for International Development
USD	United States Dollar - the official reporting currency of the LDS
WFP	World Food Programme

1. INTRODUCTION

This manual outlines the accounting policies and financial management procedures that must be followed by the LDS Zimbabwe.

1.1 Purpose

These policies seek to:

- ✓ Establish a proper financial accounting system
- ✓ Establish proper budgetary control and reporting procedure
- ✓ Maintain uniformity in the accounting procedures of LDS Zimbabwe
- ✓ Detail the accounting & bookkeeping procedures required to control the financial affairs of LDS Zimbabwe.

1.2. Objectives of the Policies & Procedures

This financial policies & procedures document provides systems which will accurately and promptly record, classify and summarize the accounting transactions and facilitate the timely preparation of the financial statements of LDS. In order to maintain the integrity of the system, the financial policy will:

- ✓ Provide staff with the relevant information about the accounting system for familiarization induction of new staff and training purposes.
- ✓ Provide comprehensive and concise explanations of individual procedures and identifies the personnel responsible for their performance.
- ✓ Provide consistent clerical and accounting methods to allow continuity.

The manual also:

- ✓ provides instructions for the day-to-day financial processes that occur within the LDS projects.
- ✓ serves as a guide to all staff, on how the finance function in their particular office should operate.

The operational responsibility for implementing the policies contained in this manual may be delegated (normally to the Finance & Administration Coordinator), the final responsibility for ensuring compliance rests with the LDS Director.

The following manuals may be referred to in this manual and operate in conjunction with it:

- LDS Constitution
- Sage Accpac Manual,
- LDS Procurement Policy,
- Risk Management Policy,
- Security Policy,
- Whistle Blowing Policy,
- Human Resources Policy,
- Employment Code of Conduct ,
- Vehicle Management Policy,
- Reserve Policy,
- Asset Management policy and other Standard Operating Procedures.
- Fixed Asset Policy

The manual is a working document and is there to ensure that the correct levels of controls are within LDS. Therefore, as the environment in which LDS operates changes and the organisation changes, so will the type of control required. It is therefore an evolving document. Any suggestions for changes should be sent to the LDS Director. .

Finally, this manual should not be read in isolation. All LDS programmes must follow the policies, guidelines and procedures that are in separate manuals and documents.

1.3 Legal Status in Zimbabwe

The Legal Status of LDS in Zimbabwe is as below:

1.3.1. Under the PVO Act (incorporated as a PVO)

LDS was registered in Zimbabwe as a PVO in 2003 (PVO:01/2003)

1.3.2. Under the Income Tax Act

Donations and grants received by LDS are not taxed. Other tax laws, such as value added tax (VAT) do apply to LDS. If LDS generates income through investment, then that income is subject to tax (this means any dividend or interest received by LDS is taxable). If LDS operates but does not register any profit and funds are channelled to the sustainability of the organization, then profits will not be declared to warrant tax liability

2. ACCOUNTING SYSTEM

2.1 BASIS OF ACCOUNTING

2.1.1 Financial Accounts

- i. The financial accounts of LDS are produced on an accrual basis. Any exceptions to the accrual basis must be approved by the LDS Finance & Administration Coordinator in Harare and must be listed under *significant accounting policies* in the Notes to the Accounts in the annual Audit Report.
- ii. The financial year for LDS is, 1 January to 31 December.
- iii. The reporting currency of LDS is United States Dollars (USD) and any other currency that may be directed/instructed by laws of the country.
- iv. Separate reports can be produced in another currency for specific donors, in accordance with requirements in the agreement signed with the donor.

2.1.2 Income

- i. Funding received from donors must be credited directly to a project.
- ii. **During the year**, income is recorded only when it is received. During the year, pledges or assurances are not recorded as income or as contributions receivable.
- iii. **At the end of the year**, income must be matched with expenditure. The income is recorded under project balances receivable in the year just ended, meaning that it is recorded in the

year in which it was spent. Income can only be brought to account if it has actually been received in the New Year before the accounts are finally closed off. Final instalments that are due but have not been received by 31 December can only be brought to account if the amount due is firmly stated in writing by the donor.

- iv. Only the exact amount that is equal to the amount that has been spent in the year ended should be accrued.

V. FOR INCOME RECEIVED

a) At year end, generate a General Ledger journal:

Debit Project Receivables
Credit Income in the relevant project

b) In the New Year when the income is received:

Debit Bank
Credit Project Receivables Project Balances

- c) **During the year**, project balances are listed in the Balance Sheet. **At year end**, project balances are not listed in the Balance Sheet. At year end, project balances are actually unspent balances and are shown as Contributions Received in Advance under Current Liabilities. This can only be done if the donor agrees that the unspent balance can be spent in the following year. If the donor does not agree the unspent funds will therefore have to be returned to the donor. In these instances, the unspent funds will be recorded in Accounts Payable.
- d) Expenditure in excess of income (a deficit) is not acceptable under any circumstance. If a deficit does occur, meaning that no donor has agreed to fund the over expenditures, the deficit should be recorded under Other Assets - Deferred Expenditure. The deficit must be recovered over several years from other sources of income.
- e) Expenditure in excess of income is only permitted when the project is ongoing and further funds will be received in the New Year. When this occurs, the amount overspent is shown as Project Balances Receivable under Current Assets.

2.1.4 Expenditure

- i. Expenditure is normally recognised in the month in which the payment actually occurred. At year end, **all expenditure** must be accrued and brought to account in the year just finished.
- ii. Where an invoice has been received from a creditor, but not paid until the following month, the amount is treated as an Accounts Payable.
- iii. Where no invoice has been received, but goods and services have already been provided by the supplier, the cost should be estimated and brought to account and treated as an Accrued Expense. The amount to be accrued should be based on a purchase order form, supplier quotation or other written agreement or documentation.

- iv. Purchase orders for which the goods have not yet been delivered or and services have not been provided must **not** be brought to account.

2.1.5 Fixed Asset Purchases

- i. The procedure is to capitalise and depreciate certain assets. For those assets which were purchased from LDS own funds, the assets will be capitalised in the records and depreciated according to the LDS Fixed Asset policy. The necessary details will be shown in the annual Audit Report and in the accompanying notes. The value of the fixed assets in the possession of the LDS that are restricted as to their future use will be included in a note in the Audit Report that is separate from the unrestricted assets. The assets purchased from project funds are expensed to the project. The Finance & Administration Coordinator must keep a separate updated asset register to include all assets.
- ii. The assets should be divided into 4 categories: Land and Buildings, Vehicles, Computers, Other Office Equipment.

2.1.6 Stock

The LDS policy is to fully expense purchases of stock in the period of acquisition. However a recording system for the stock at hand should be in place and used to track stocks. The FAC must ensure that such a system exists and that a stock count is done at least quarterly.

2.1.7 Contributions in Kind

Donated commodities received from a related agency, must be recognised in the books of LDS unless if requested by a donor as is the case with WFP sometimes.

The accounting entries are as follows:

Debit	Project expense account
Credit	Project income account

The amount to be brought to account will normally be stated by the agency that contributes the goods in the donation certificate. If this is not the case the value stated can be determined in relation to the market value of the goods in the Zimbabwe.

2.1.8 Projects

- i. The project is the basic accounting unit for all LDS programmes. It is the project to which donors give funds.
- ii. The particular considerations relating to each category are listed below.

2.1.8.1 Programme Operations

Programme Operations contain the core costs, or overheads. There can be either two or three separate projects relating to Programme Operations, as follows:

a) Director's Office Cost Centre

- i. This project is for accounting purposes only. It is where all expenditure for country headquarters, including staff salaries and benefits are initially charged. Staff salaries in

this project include the costs relating to the Director, FAC, and Accountant etc etc at headquarters. Programme Operations does not receive income from donors. However, there may be small items of income such as interest, sale of assets or other sundry income that cannot be allocated to a specific project.

- ii. At the end of the month, the net expenditure in Programme Operations is charged fully to individual projects on the basis of timesheets and agreed budgets with the donor.

b) Head Office Direct Program Cost Centre

This project is charged as Head Office Direct Programme Costs. It contains costs for staff who operate from the country's headquarters, and not from the project site. It includes salaries and benefits, share of office rent, etc. but whose function is entirely project oriented. Staff salaries in this category include those of Programme Coordinator and Thematic advisors. These costs are to be allocated to the projects each month. They should not be charged in the same expenditure lines as for Project 4000. Instead, they should be included in the direct costs of the projects.

2.1.8.2 Other Projects

- i. Prior to entering into each agreement for a project, the LDS Management must produce a proposal – both narrative and budget. The Finance & Administration Coordinator must complete the “Approval Checklist for Projects”. The purpose of this document is to help ensure that all important issues with financial implication have been addressed in the proposal and have not been overlooked.

See form “Approval Checklist for Projects”.

- ii. All project agreements must be signed by the LDS Director.
- iii. When negotiating the budget, the country programme must ensure that an adequate amount is included for Programme Operations (core costs). Time budgets should be used to support the negotiations for a fair coverage of core costs.
- iv. Implementation of projects must not be commenced prior to the receipt of funds from the donor unless approval for pre-financing is received in writing from the LDS Director. Pre-financing is not generally permitted. Pre-financing must be approved by the **LDS Director** in order to ensure that operations can continue. The Programme Coordinator will make a request to the LDS Director.
- v. Reporting requirements will vary from donor to donor and are detailed in either the contract or agreement with the donor, or in the donor's guidelines that are in separate documents attached to the contract or agreement.

2.1.8.3 Approval Checklist for Projects

APPROVAL CHECKLIST FOR PROJECTS

Note 1 This form must be completed by Finance & Administration Coordinator prior to signing the agreement with the donor.

Note 2 All funding arrangements entered into must be supported by a legal contract or agreement.

Note 3 All project agreements must be signed by the LDS Director.

APPROVAL CHECKLIST FOR PROJECTS

General Information

Country Programme	
Project name	
Project number	
Donor	
Amount and percentage provided by donor	
Back donor	
Amount and percentage provided by back donor	
State whether the full amount of the grant is contingent upon funding from other sources. Provide details.	
Donor project reference number	
Implementation period	
Actual start date	
Dates for submitting interim narrative reports	
Date for submitting final narrative report	
Dates for submitting interim finance reports	
Date for submitting final finance report	
Dates for submitting interim audit reports	
Date for submitting final audit report	
Date signed by donor	
Name and email address of donor contact person	
LDS signatories to the agreement:	
- Country signatory	
Date agreement signed by LDS	
Signed approval received from	

Finance Issues

1.	Does the Finance & Administration Coordinator have a copy of the agreement / budget?	
2.	Currency of reports to donor	
3.	Currency for fund receipt	
4.	Will funds be transferred direct to country programme?	
5.	Is there a schedule when funds will be released? If "Yes" please detail.	
6.	What and who triggers a funds transfer? (e.g. special request format, official letter, etc.)	
7.	Is LDS expected to pre-finance the project? If "Yes" please provide details of the amount and the length of time.	

APPROVAL CHECKLIST FOR PROJECTS

8.	What is the value of the project budget? Please state the total budget split by calendar year for multi-year agreements	
9.	Is a project-specific audit report required? (If yes, please specify any particular requirements and due dates)	
10.	If the answer to question 9 is “Yes” are the audit fees provided for in project budget?	
11.	What is the correct mechanism for revision of budget line items?	
12.	Is the donor paying full overheads, as calculated by time budget / overhead allocation system?	
13.	By how much is LDS subsidising overheads on this project?	
14.	If the answer to question 13 is “No”, explain and justify. How will the Programme fund the subsidy?	
15.	Does the budget include provision for all staff terminal benefits?	
16.	Will new staff be recruited for this project? If so will they be international staff members? If yes, has LDS Office been involved in recruitment?	
17.	Where will the financial supporting records be filed?	
18.	Does this project involve procurement over \$ 10,000 in total?	
19.	Please specify any financial risks for this project	

Programme Issues

1.	Which strategic objectives named in the Country Strategy does this agreement seek to address?	
2.	What is the geographic focus of the agreement and is it in line with the Country Strategy?	
3.	What is the target group of the project and is it in line with the Country Strategy?	
4.	What are the monitoring and evaluation requirements of this agreement?	
5.	Provide details as to the ownership of the assets purchased from project funds.	

2.2 ACCOUNTING SOFTWARE

- i. The accounting software used by LDS programmes is Accpac for Windows Advantage Series, Enterprise Edition. It is distributed and supported world-wide by Sage Software. The web site is www.sageaccpac.com.
- ii. For details on the Accpac system for LDS country programmes, refer to the LDS Accpac Manual including information on the Accpac structure and Chart of Accounts.
- iii. LDS Accpac Manual provides step by step instructions and hints for setting up LDS Accpac systems in LDS project offices.

2.3 INTERNATIONAL ACCOUNTING STANDARDS

- i. The International Accounting Standards Board (IASB) publishes International Accounting Standards, generally in the form of International Financial Reporting Standards (IFRS). The goal of IASB is “to provide the world’s integrating capital markets with a common language for financial reporting”. Entities are required to provide financial statements that fairly present the entity’s financial position, financial performance and cash flows. The objective of fair presentation can mean that additional disclosures in excess of those mandated by IFRS are necessary. Standards and Interpretations need not be applied to immaterial items. Compliance with IAS is now a legal requirement for commercial company accounts in the European Union and the USA.
- ii. The LDS financial statements are prepared in accordance with, and comply with, the financial regulations and the accounting principles of the funding partners. The LDS accounting policies have been based on the general principles of the International Financial Reporting Standards, as detailed in the International Accounting Standards Board Framework for the Preparation and Presentation of Financial Statements. It is the intention of LDS to maintain IFRS compliant standard.

3 RISK MANAGEMENT

3.1 INTRODUCTION

- i. Risk management can be defined as a systematic approach used to identify evaluate and reduce or eliminate the possibility of an unfavourable deviation from the expected outcome.
- ii. LDS management must develop a comprehensive and integrated Risk Management Policy and Strategy. The final Risk Management policy must be updated every year. For more detail please refer to the Risk Management Policy
- iii. This section of the LDS Finance Manual will focus only on the Financial Risk Management, which is one part of a bigger picture of Risk Management

3.2 FINANCIAL RISKS MANAGEMENT

- i. Financial Risk Management is the balancing of risks and controls within an organisation to

achieve organisational objectives. Financial Risk Management boils down to properly managing the risks involved with all tangible and intangible assets. Internal control and risk management are therefore interlinked in terms of financial management.

- ii. Financial Risk assessment is one of management's responsibilities. Failure to manage these risks can jeopardise the achievement of an objective.

3.2.1 Why is Financial Risk management Important?

It is important for:

- Preventing the loss on financial assets
- Reducing the financial cost of those losses
- Reducing the impact of those losses on LDS stakeholders

3.2.2 Identification of Risks

In order to identify risks the following questions should be asked:

- What could go wrong?
- What could cause failure?
- What must go right in order to succeed?
- Where are the vulnerable areas?
- What assets should be protected?
- How could someone steal from the organisation?
- How could someone disrupt operations?
- What decisions require the most judgement?
- What activities are most complex?

3.2.3 High Risk Areas

It is important that risk identification be comprehensive for operations, financial reporting and compliance objectives. Both external and internal risk factors need to be considered. Quite often several risks can be identified for each objective.

Listed below are some types of areas that often pose higher risks than others and the management must take extra effort to manage them:

3.2.3.1 Cash on hand and cash at bank

The management of cash at bank and in hand requires strong internal control procedures and authorisation limits must be clearly defined in this area, for example, on a bank mandate form or in a cash handling policy. Cash is slippery and needs special attention.

- There are some rules for cash transactions.
 - o Always give receipts for money received.
 - o Always obtain receipts for money paid out.
 - o The reconciliation of cash and bank is **mandatory**
 - o Pay surplus cash into the bank.
 - o Have properly laid down procedures for receiving cash.
 - o Restrict access to petty cash and the safe.
 - o Keep petty cash transactions to a minimum.

- o Surprise cash counts should be done by supervisors and managers.

3.2.3.2 Exchange losses

- The Financial Times/LDS rate is higher than the actual rate.
- Revaluation of local currencies.
- Pre-financing of non USD project agreements.
- Complex agreements – EU contracts in Euro, reporting in USD, actual expenditure in multiple currencies.
- USD advances to staff, settled in local currency.

3.2.3.3 Payroll

- The FAC must reconcile wages records every month to ensure the correct deductions are being made and passed on to the relevant authority.
- Controls must be in place to avoid abuse in the form of ‘ghost employees’.

3.2.3.4 Unfunded expenditure

- Unauthorised expenditure – more than the amount specified in agreed work plans and the budgets.
- Overhead to be funded by unrealistic ‘new’ projects.
- Project co-financing percentage not realised in projects such as the EU.
- Non-payment of donor instalment due to non-performance, non-acceptance of reports or poor quality of work.
- Budgets that do not include adequate funding of core costs.

3.2.3.5 Contractual and legal exposure

- In EU contracts the lead agency lacks experience.
- Inability to produce supporting documents from archives for audits.
- Construction contracts – professional negligence.
- Litigation with former staff.

3.2.3.6 Vehicles

- Use of vehicle for private use must be in line with written procedures.
- Vehicle log books must be reviewed by managers.
- Physical access to vehicles should be restricted.

3.2.3.7 Other assets and stock

- Loss of stock kept on premises.
- Physical access to stock should be restricted.
- Physical counts should be regularly done for all assets and stocks.
- Asset registers to be kept up to date, particularly when assets are relocated.
- Assets must be insured against fire and theft.
- Safe place to keep valuables

3.2.3.8 Tax Liability & Statutory Obligations

- Annual Income tax Returns
- Late payment of statutory obligations – NSSF/PAYE/WHT/VAT
- Non Payment or remittances of statutory deductions

- Wrong calculations of statutory obligations
- Poor record keeping related to tax and statutory obligations

3.2.3.9 Other areas of risk

- Unfunded staff termination benefits.
- Improper Accpac back up procedures.
- Virus corruption.
- IT security threats e.g cybercrime involving bank accounts.
- Use of pirated software. Use of MS Office invalidates the Accpac warranty.
- Travel expenses.
- Presentation of false receipts.
- Collusion with suppliers.

3.3 FINANCIAL RISK MATRIX

LDS is required to produce a Financial Risk Matrix for each financial risk that could affect their country programme. The purpose of this matrix is to alert the LDS Management & Board to potential losses, deficits and donor funds that are delayed etc. A separate matrix should be constructed for each risk.

3.3.1 Financial Risk Matrix Example

**THE LUTHERAN DEVELOPMENT SERVICES
FINANCIAL MATRIX**
For the Period: 1 January 2020 to 31 December 2020

Risk no. 1	Significant reduction of total annual programme funds compared to previous levels							
Impact	Likelihood	Likely (3)	Possible (2)	Remote (1)	Total Risk Score	Risk Reduction Action Plan		Likely Outcome
		(score 4 to 9)	(score 2 to 3)					
Critical (3)		XX				Raise at least USD 600,000 locally for emergency relief and rehabilitation projects by June 2008.		Additional USD 600,000 likely to be raised through ELCA, local government and IOM.
Major (2)								
Manageable (1)								
Comments:	60% of annual total funding of the (name) Programme is raised locally through humanitarian aid appeals. Major flooding is expected and appeals are likely to be funded. The programme will submit food security proposals to ELCA and Diakonie. The programme will also partner and collaborate with one of the UN agencies and collaborate with the Disaster Management and Mitigation Unit in the office of the Vice President.							

Key to Ranking Risk Levels

Likelihood:

3 = Likely Expected to happen, to a more than even chance of it happening (50% to 100% possibility).
 2 = Possible Quite possible that it will occur, to an even chance of it happening (15% to 50%).
 1 = Remote Just possible it might happen but very surprising, to extremely unlikely (below 5%).

Impact:

3 = Critical	Would stop the activity being implemented if the risk occurred or would cause serious cost overruns if implementation continued. (Will result in a deficit or loss of more than USD 20,000 and / or a budget sector variance of more than 20%. Will also cause damage to reputation sufficient to make a donor reconsider future funding.)
2 = Major	Would require a change to the activity. (Will result in a deficit or loss of between USD 5,000 and USD 20,000. Will also cause damage to reputation with donors.)
1 = Manageable	Procedures are in place to deal with the consequences of the risk. (Will result in a deficit or loss of USD 5,000. Could give rise to a negative audit comment, which would then be noticed by donors.)

The FAC must submit this matrix to the LDS Director by 31 January.

4 INTERNAL CONTROL SYSTEM

4.1 DEFINITIONS AND KEY CONSIDERATIONS

The ICS covers the entire range of established procedures, methods and controls in an organisation for the purpose of ensuring the proper functioning of activities.

4.1.1 Objectives of an Internal Control System

The controls set out in this section of the manual are mandatory for each programme and department within LDS. They aim to ensure that internal control of all financial activities is as good as it can be in the circumstances that prevail in each location

4.2 TYPES OF INTERNAL CONTROLS

4.2.1 Written Procedures

- i. Well written policies and procedures are a key for effective internal control.
- ii. The LDS Director must ensure that the following policies and procedures are available to staff, where applicable, either in hard copy, soft copy or by internet access:
 - LDS Finance Manual
 - LDS Procurement Policy
 - Human Resources (HR) Policies and Procedures
 - LDS Policy for Management of Fraud: Deterrence, Prevention and Investigation
 - Other relevant procedures from the list in 1.1 in the introduction chapter.

4.2.2 Delegated Authority - Authorisation and Approval Limits

- i. Authorisation is the delegation of authority. LDS Board delegates responsibility for the day-to-day running of LDS to the Director who acts as Chief Executive.
- ii. In consultation with the Finance & Administration Coordinator, the Director should delegate authority at appropriate levels to staff who are responsible for each area of expenditure. Activities or transactions that need supervisory approval before they are performed or executed by employees should be specified.
- iii. Authority levels should be documented and updated to reflect changes in staff or context and signed and approved by the Director of LDS. Authorisation limits must take into account the relevant stipulations of the LDS Procurement Policy.
- iv. Approval of a transaction means that the transaction is appropriate, accurate and complies with policies and procedures.
 - a) Approvers should review supporting documents, question unusual items and make sure that the necessary information is present to justify the transaction before they sign it.
 - b) Signing blank forms should never be allowed.
 - c) Transactions that exceed the specified level should require approval at a higher level.
 - d) Under no circumstances should an approver tell someone that they can sign the approver's name on behalf of the approver.

- e) Under no circumstances should an approver with electronic approval authority share their password with another person.
- f) The person initiating the transaction should not be the person who approves the transaction.
- g) The person should not authorise a transaction from which they personally benefit.
- h) A junior staff member should not authorise his or her manager's expenses.

4.2.3 Segregation of Duties

- i. Segregation of duties is critical to effective internal control.
- ii. In general, the approval function, the accounting and reconciliation function, and the asset custody function should be separated among employees. These functions require at least two sets of eyes. If a project office is small and these functions cannot be separated, a detailed supervisory review of related activities is required.
- iii. **No one person should:**
 - Initiate the transaction
 - Approve the transaction
 - Record the transaction
 - Reconcile balances
 - Handle assets
 - Review reports

Specific examples of segregation of duties:

- a) The person who requisitions the purchase of goods or services should not be the person who approves the purchase.
- b) The person who requisitions the purchase of goods or services should not be the person who reconciles the monthly financial reports.
- c) The person who approves the purchase of goods or services should not have custody of the cheques.
- d) The person who maintains and reconciles the accounting records should not have custody of the cheques.
- e) The person who has custody of assets should not be responsible for processing the accounting records for those assets.
- f) The person who has custody of assets should not be the person who approves purchase of assets.

4.2.4 Reconciliations

Reconciliations compare different sets of data from one to the other. Difference should be identified and investigated and corrective action should be taken. This activity helps to ensure the accuracy and completeness of transactions. Reconciliations include: Bank reconciliations, stock counts, cash counts etc.

4.2.5 Reviews by Management

Management must review reports, statements, reconciliations and other information. Management should review such information for consistency and reasonableness, such as:

- a)** Budget to actual comparison – compare current performance to budgets, forecasts, prior periods or other benchmarks to measure the extent to which goals and objectives are being achieved.
- b)** Senior managers at both HQ and field offices must carry out cash counts and spot checks and evidence by signing.
- c)** Identify unexpected results or unusual conditions which require follow up.
- d)** Management's review of reports, statements, reconciliations and other information should be documented as well as the resolution of items noted for follow up.

4.2.6 Documentation of Transactions and Record Maintenance

Every accounting transaction must be supported by the following:

- a)** Documentation that explains the nature, timing and value of the transaction. Refer list of supporting documents required for types of expenses
- b)** Clear details of who initiated it and who authorised it.

4.2.6.1 Retention of records

Accounting documentation, including electronic data, must be filed neatly for ease of access and retained for the appropriate period of time. This is vital in order to ensure that documents are always available that verify properly authorised expenditure if queried by donors and others. The retention period will vary, according to the following:

- a)** Local legislation - The statutory minimum retention period for documents is six years. If the local statutory minimum retention period is less than seven years, then the LDS minimum requirement must be observed.
- b)** LDS minimum retention period is eight years.
- c)** Some donors may specify the required period that the records must be kept and this must be followed. Check the agreement that was signed with the donor.

4.2.6.2 Location of documentation

Supporting documents from field offices should be sent to the Harare headquarters. If documents are to be retained at the field office the Finance & Administration Coordinator must provide written instructions on how and where the records are to be retained.

4.2.6.3 Storage of documents

Stored documents can become spoiled over time and this will happen more quickly if the storage environment is not appropriate. All stored documents must be kept in a clean and dry area. If possible, the area must also be safe from the threat of fire. The storage area must be easily accessible and the documents must be stored in a systematic manner.

4.2.6.4 Storage of electronic data

Noncurrent electronic data must be stored in a safe place. Critical electronic data should be copied and stored in a separate place. The storage area should be clean, dry and safe from the threat of fire. The data must be stored in a systematic manner.

4.2.7 Information and Communication Systems

Information and communication are essential to effecting control. Reliable and relevant information from both internal and external sources must be identified, captured, processed and communicated to the people who need it and in a form and timeframe that is useful.

4.2.7.1 Electronic information

- i. LDS has options to use a variety of electronic information systems – local area networks, cloud saving, personal computers, telephone systems, internet and email taking into account the confidentiality of the information.
- ii. Computers containing financial information should only be accessible to appropriately authorised personnel. The key internal control in this area is password protected access to computers and to specific software such as Accpac (refer to chapter 32 of this manual), payroll software and other financial records such as the fixed asset register.

iii. Other information

Staff meetings, Budget review meetings, workshops and seminars should be minuted, disseminated and filed.

4.2.8 Safeguard and Maintenance of Assets

Safeguard and maintenance of **fixed assets** is essential for the sustainability of operations in country programmes. Internal control procedures in this area include the following:

- a) Documentation of assets in a register.**
- b) Numbering and physically labelling the assets.**
- c) Physical verification at least quarterly.**
- d) Periodic servicing and preventative maintenance of assets – especially motor vehicles.**
- e) Appropriate security precautions.**
- f) Insurance coverage.**

Cash is an asset that requires particularly strong internal controls for its safeguard. Cash is the most liquid of all assets and the risks are great. Bank reconciliations and surprise cash counts are two specific examples of standard internal controls.

4.2.9 Personnel

Appropriately qualified and trustworthy personnel are an essential requirement for effective control. It does not matter how good the control system is on paper if the staff members responsible cannot implement the controls. Refer to the personnel policy for controls on personnel.

4.2.10 Legal Advice

It is important that LDS is able to have ready access to legal advice. Immediate access to advice from a known and reliable source is essential in the event of any problems arising in-country.

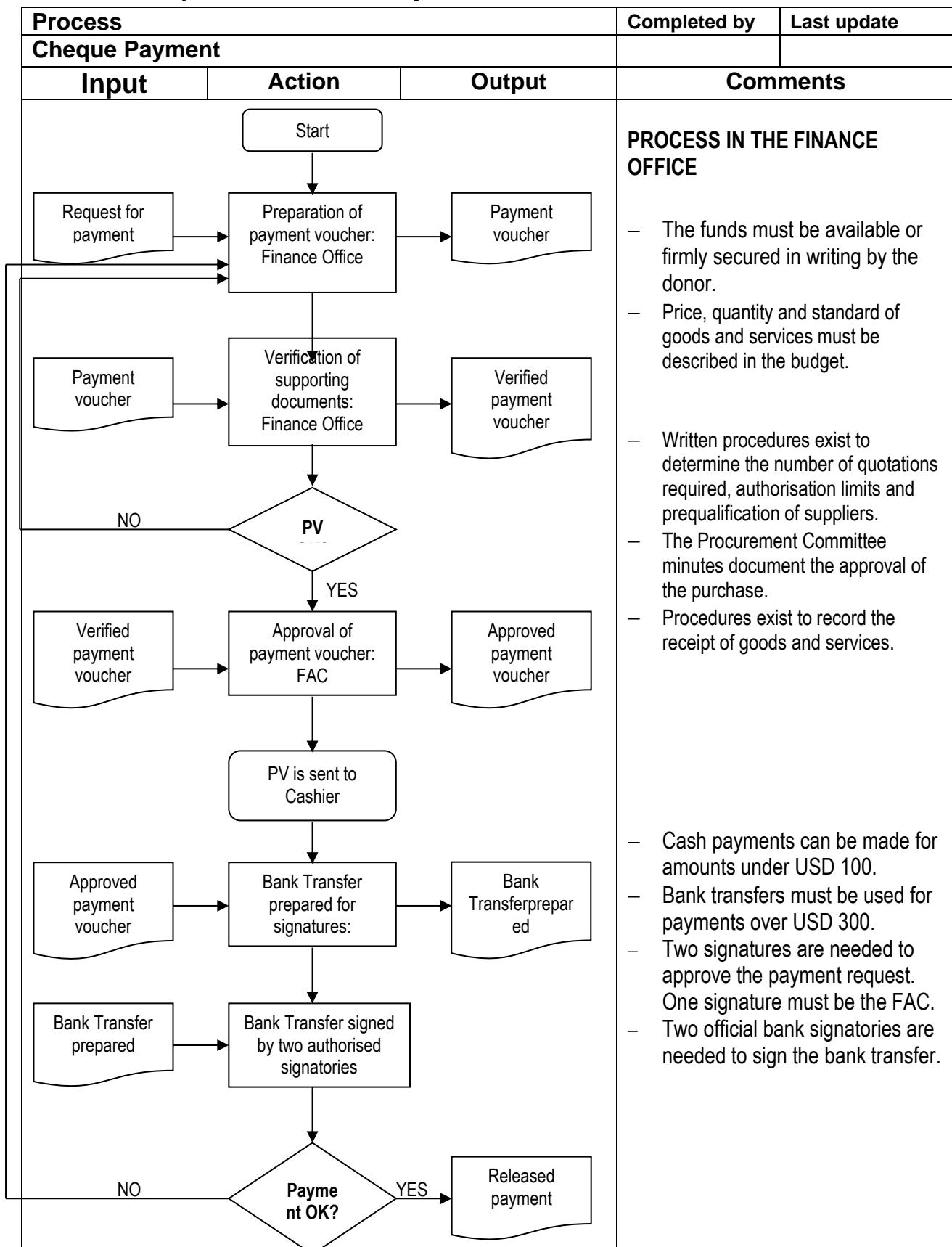
4.2.11 Monitoring

Monitoring is the assessment of internal control performance over time. Ongoing monitoring activities include various management and supervisory activities that evaluate and improve internal control. Specific LDS monitoring involves the following:

- a) Project Monitoring and Evaluation System**
- b) Regular field visits and producing reports on these visits.**
- c) Self-assessment check lists on management controls and compliance with procedures**
- d) Close communication between agencies, and LDS**
- e) Internal audits. This is at the discretion of the LDS Director.**

The use of spot checks or basic sampling techniques can provide a reasonable level of confidence that the controls are functioning as intended.

4.3 Example Flow Chart for Payments



4.6 COMPLIANCE WITH INTERNAL CONTROL SYSTEMS

It is the responsibility of the Director to ensure that the internal control systems are functioning and that policies and procedures are being followed. Two tools have been developed to help the LDS know that systems and policies are followed.

The first is the Internal Control Checklist which is to be completed by the Finance & Administration Coordinator and submitted to LDS Director twice in a year - by 30 April and 15 January. The purpose of this document is to determine the level and quality of internal control in each field office. The checklist can be found in Appendix 4.1.

The second is the Finance Manual Checklist to be submitted to LDS Director by 15 January and 30 June. This checklist is to be completed by the Finance & Administration Coordinator and serves as a confirmation that all policies and procedures defined in the finance and procurement manuals are implemented in full. The checklist can be found in Appendix 4.2.

The Lutheran Development Services Financial Management and Internal Control Checklist			
For Completion by Finance & Administration Coordinator			
		FAC:	
Date checklist completed			
Period covered		From:	To:
1.	Legitimacy of Country Activities		
	Please list below all Memoranda of Understanding and Registrations that are required with country and local government ministries, departments, tax authorities, and indicate whether or not registrations are current and up to date.		Registration up to date?
			Yes
			No
For registrations marked "no" what remedial action is being taken?			
2.	Procurement		
2.1	Do all staff involved in procurement have access to a current copy of the LDS Procurement Policy (the procurement manual)?		Yes
2.2	Are the staff familiar with the contents of the procurement manual?		No
2.3	Have limits of authority for individual staff positions and individual purchases been established in conformity with the procurement manual?		
2.4	Have the staff been properly advised of these authority limits?		
2.5	Has a functioning Procurement Committee been established in accordance with of the procurement manual?		

The Lutheran Development Services Financial Management and Internal Control Checklist			
2.6	Are procurement limits and authorisations as shown in the procurement manual consistently applied to all procurement procedures?		
2.7	Does supporting documentation clearly demonstrate that required limits and authorisations have been consistently applied?		
	For procurement items marked "no" what remedial action is being taken?		
3.	Project Management and Donor Reporting	Yes	No
3.1	Is the LDS Board advised in writing of all new project proposals before project contracts are signed?		
3.2	Have all project agreements been signed by the LDS Director?		
3.3	The LDS Finance Manual, states that all project agreements be signed by the LDS Director. Has this requirement been complied with for all relevant projects?		
3.4	For all projects, has the approval checklist (Finance Manual chapter 2) been submitted to the LDS Director prior to signing all project agreements?		
3.5	Has all project activity been conducted without pre-financing? (Pre-financing occurs where the project balance is a negative because funds spent have exceeded funds received.) For each project, a detailed explanation is required showing the reason for the negative balance, how the negative balance will be resolved, and clearly identifying the source of funds used to pre-finance the project.		
3.6	Are monthly financial reports for each project, showing the budget/actual performance, distributed to project staff on time?		
3.7	For each project, are there regular recorded meetings of project and finance staff to review project performance?		
3.8	Is there a procedure in place to ensure that project and finance staff properly analyse budget variances and take remedial action?		
3.9	Has all donor reporting been carried out in the formats required by project agreements?		
3.10	Is all donor reporting, financial and narrative, up to date?		
3.11	Is there a coordination process in place to review narrative and financial reports for consistency before submission to donors or any other party?		
3.12	Is there a centralised project-by-project filing system, either in hard copy, computer files or a combination of both, whereby the country representative and other staff can find, and clearly identify without ambiguity, finalised signed copies of project agreements, authorised changes to projects, financial and narrative reports to donors, and copies of all major relevant correspondence?		
	Please provide explanation and proposed remedial action for all project management and donor reporting items marked "no".		
4.	Management of Staff and Overhead Costs		

The Lutheran Development Services
Financial Management and Internal Control Checklist

	The Finance Manual chapter "Time Recording and Core Costs (overheads) Allocation" provides that time sheets have to be followed and overheads costs distributed according to the agreed donor budget. Compliance with these requirements is essential.	Yes	No
4.2	Have timesheets been maintained by all staff?		
4.3	Have the timesheets been used consistently as the basis for charging staff costs to projects?		
4.4	Have overhead costs been allocated consistently to projects in accordance with the Finance Manual?		
4.5	For projects where donor agreements and/or donor guidelines identify the methods of charging staff, overheads or any other cost to projects, have costs been charged in compliance with such agreements and guidelines? (Note: In the event of conflict between the finance manual and donor agreements/guidelines, donor requirements should take precedence.)		
	For staff and overheads cost items marked "no" what remedial action is being taken?		
5.	Budget Preparation and Control	Yes	No
5.1	Is there a timetable in place to allow annual programme planning and programme budgeting to be completed according to a timescale that allows for adequate planning and discussion, detailed formatting, adequate approval processes, and loading of approved budgets into Accpac, where all can be completed in good time for the plans and budgets to be in place and functional before 1 January each year?		
5.2	In budgeting for the cost of, and the recovery of, staff and overhead costs, has the process been done in compliance with the provisions of the Finance Manual?		
5.5	For projects which have been subject to budget changes and that have been agreed by the donor, have these changes been taken up in the project budget?		
	For budget preparation and control items marked "no", what remedial action is being taken?		
6.	Cash Flow Management		
	The Finance Manual deals with internal monthly reporting and gives comprehensive details of monthly reporting formats. They include forecasting for income and expenditure, and for preparing funds transfer requests from Harare.	Yes	No
6.1	Have cash flow reports been consistently prepared on time?		
6.2	For those individual projects which currently have cash deficits, or for which the cash flow forecasts identify that future deficits will emerge, has the LDS director taken positive action to eliminate the current deficits and prevent the future deficits?		

The Lutheran Development Services Financial Management and Internal Control Checklist			
6.3	Has the action referred to in 6.2 above been documented and communicated to relevant finance and project staff?		
	For cash flow items marked "no", what remedial action is being taken?		
7.	Staffing	Yes	No
7.1	Do all staff have up to date written and signed contracts of employment?		
7.2	For those staff who are engaged directly on specific projects, is the duration of employment contracts directly linked to the activity requirements and funding of the projects on which they are deployed?		
7.3	Do arrangements for pensions, superannuation, termination benefits, sick leave, holiday pay, and all other benefits to which staff may be entitled, meet at least the minimum legal requirements of Zimbabwe?		
7.4	Are the costs of pensions, superannuation and termination benefits calculated on a monthly basis and included in the rates at which staff are charged to the projects on which they are engaged?		
7.5	Are the costs of accrued annual leave, pension funds and termination benefits charged to projects on a monthly basis, rather than simply being charged on a cash basis when the leave is taken? (This is to ensure that the required amount of project funding is allocated to meet these costs.)		
	For staffing items marked "no", what remedial action is being taken?		
8.	Management of Liabilities	Yes	No
8.1	Regarding short term payroll related liabilities (e.g. staff taxes and insurances), have the liabilities been properly calculated and brought to account in the Balance Sheet?		
8.2	Have all short-term payroll related liabilities been paid on time? Only current month deductions should be outstanding.		
8.3	Are all amounts due in respect of pensions, superannuation and termination benefits properly and fully calculated and brought to account as liabilities in the Balance Sheet?		
8.4	For liabilities mentioned above in 7.5, has there been an appropriation of funds in separate bank accounts to meet these liabilities as they fall due?		
	For liabilities items marked "no" what remedial action is being taken?		
9.	Reserves		
	Methods of accumulating reserves include - sale of fixed assets originally funded by project donors; provision of goods and services to projects at rates which exceed cost; charging projects with "rental" charges for programme assets utilised; provision of services to projects at notional rates which may invoke contingent liabilities for future costs (e.g. self-insurance of vehicles). The extent to which such methods are acceptable is a matter for consideration of the arrangements for individual projects and donors.	Yes	No

The Lutheran Development Services Financial Management and Internal Control Checklist			
9.1	Where reserves are accumulated from sale of fixed assets, is there a process in place to ensure that the LDS has good title to the assets sold, and that the retention by the LDS of funds received from such sales is in conformity with the expectations of the donors who funded the original acquisition of the assets concerned?		
9.2	Where reserves are accumulated by charging goods and/or services to projects at rates above cost, and/or charging for assets utilised, are such charges made in compliance with the contractual provisions of donor agreements, and in a completely transparent manner so that the donors are in no way led to believe that such charges are based directly on actual costs?		
9.3	Has there been an appropriation of funding for reserves in separate bank account(s) so that such funding is available to enable reserves to be utilised as and when required?		
	For reserves items marked "no" what remedial action is being taken?		
10.	Fixed assets		
	Fixed asset record keeping is described in detail at chapter 16 of the Finance Manual.	Yes	No
10.1	Is the fixed asset register maintained in a format containing the details required by the Finance Manual?		
	For fixed assets items marked "no" what remedial action is being taken?		
11.	Document and Data Retention		
	There are several influences on the need for document and data retention, including donor requirements as defined in project agreements, requirements of auditors of donors and auditors of LDS, insurance considerations, taxation law and the wider field of law covering commercial activity.	Yes	No
11.1	Is there a well-defined document retention policy in place, which addresses all relevant requirements and which has been properly communicated to relevant staff? The policy should address the period of document retention, the method by which documents relating to particular projects are to be identified and retrieved, and the place of storage.		
11.2	Are the documents and soft copies of data stored in a dry, clean and safe environment?		
11.3	Are the stored documents and soft copies of data stored in a neat and systematic manner		
11.4	Is document retention practice properly implemented so that all relevant needs are met?		
	For document retention items marked "no", what remedial action is being taken?		
12.	Follow Up from Previous Checklist	Yes	No

The Lutheran Development Services
Financial Management and Internal Control Checklist

12.1	For those items marked "no" on the previous checklist, has all remedial action now been completed and implemented?		
	For those items where remedial action has not yet been completed, please explain why, and explain how remedial action will now be completed.		

LDS Finance Manual Compliance Check List				Submitted by: Date:
Chapter of the Finance Manual	Complying?			Problems in Complying and Other Comments
	Yes ✓	No ✓	Partly ✓	
1. Introduction				
1.1 LDS Policies, Procedures and Guidelines				
2. Accounting System				
2.1.1 Financial reports				
2.1.2 Income				
2.1.3 Project balances				
2.1.4 Expenditure				
2.1.5 Fixed asset purchases				
2.1.6 Stock				
2.1.7 Contributions in kind				
2.1.8.1 Program operations				
2.1.8.4 projects				
2.1.8.5 Approved checklist for bilateral projects				
2.2 Accounting software				
2.3 International Accounting Standards				
3. Risk Management				
3.1.2.1 Identification of risks				
3.1.2.2 Analysis of likelihood of risks occurring and resulting consequences				
3.1.2.3 Rank the risks against priority criteria				
3.1.2.4 Risk matrix				
3.1.3 Categories of risk				
3.1.4.1 External risks				
3.1.4.2 Internal risks				
3.1.5 Risk management cycle				
4. Internal Control System				
4.2.1 Written procedures				
4.2.2 Delegated authority – authorisation and approved limits				
4.2.3 Segregation of duties				
4.2.4 Reconciliations				
4.2.5 Reviews by management				
4.2.6.1 Retention of records				
4.2.6.2 Location of documentation				
4.2.6.3 Storage of documents				
4.2.6.4 Storage of electronic data				
4.2.7 Information and communication systems				
4.2.8 Safeguard and maintenance of assets				
4.2.9 Personnel				
4.2.10 Legal advice				
4.2.11 Monitoring				
4.3.1 Risk assessment				
4.3.2 High risk areas				
4.4.2 Flow charts for processes				

LDS Finance Manual Compliance Check List				Submitted by: Date:
Chapter of the Finance Manual	Complying?			Problems in Complying and Other Comments
	Yes ✓	No ✓	Partly ✓	
4.4.1 Financial risk matrix				
4.6 Compliance with Internal Control Systems				
5. Budgets				
5.1 Approaches to budgeting				
5.2 Budgeting for LDS projects				
5.3.2 Country Strategy				
5.4.9 Working Budget and Work plans				
5.5 Steps in preparing a Working Budget				
5.6. PME system				
5.7 The budgeting process				
5.8 Budget check list				
5.9 Using the working budget to monitor and control expenditure				
5.10 Quick guide to the quarterly review of Working Budgets				
5.11 Using a project budget to set up codes and reports in Accpac				
6. Reports for Country Management				
6.1 Management reports				
6.2 Monitoring reports – quarterly and annually				
6.3.4 Management reports – standard reports required				
6.4 Management accounts – format of submission				
6.5 Deadlines for submission				
6.6 Contents and purpose of each report				
6.7.1 Narrative report				
6.8 Balance sheet				
6.93 Income and expenditure statement				
6.10.4 Project summary report				
6.11 Cash flow report				
6.12 Income and expenditure report for each project				
6.13 Bank reconciliation for each bank account				
6.14 Schedule of staff advances				
6.15 Schedule of local income				
6.16 Cash flow forecast				
6.17 Three month cash forecast				
6.18 Check list for month end processing				
6.19 Check list for month end reports				
7. Reports to donors				
7.1 Donor guidelines				
7.1.1 Requirements in donor guidelines				
7.2.1 Interim reports				
7.2.2 Budget revision requests				

LDS Finance Manual Compliance Check List				Submitted by: Date:
Chapter of the Finance Manual	Complying?			Problems in Complying and Other Comments
	Yes ✓	No ✓	Partly ✓	
7.2.2.1 Budget lines for contingencies				
7.2.2 No cost extensions				
7.2.3 Final reports				
7.3 Check list for financial reports to donors				
7.4 Other users of reports				
8. Contracts with International Agencies				
8.1 Corruption clause				
8.2 Anti-terrorist activity clause				
8.3 Prior to signing an agreement				
8.4 After signing agreement requirements				
9. Year End and External Audit				
9.1 Prior to year end				
9.2 Deadlines for external audits				
9.3 Check list of tasks prior to year end				
9.4 External audit				
9.5 Selection of external auditors				
9.6 Audits carried out by donors				
9.7 The audit report				
9.8 Management Letter				
9.9 Distribution of audit reports				
10. Internal Audit				
10.1.2 Internal audits carried out by locally appointed internal auditors				
10.2 Process of the internal audit				
11. Time Recording and the Allocation of Core Costs (Overheads)				
11.1 Definition of core costs				
11.1.1 Time sheets				
11.1.2 The challenge of core costs				
11.2 Negotiating a fair share of core costs				
11.3 Step 1 – Establish the headquarters budget				
11.3.1 Step 2 – Establish the cost of employing each staff member				
11.3.2 Step 3 – Establish the budget for shared office costs chargeable to projects				
11.3.3 Step 4 – Prepare a budget for staff costs chargeable to projects				
11.4 New projects				
11.5 Adjustment for actual vs budget				
12. Exchange rates				

LDS Finance Manual Compliance Check List					Submitted by: Date:
Chapter of the Finance Manual	Complying?			Problems in Complying and Other Comments	
	Yes ✓	No ✓	Partly ✓		
12.1 Official LDS rates					
12.1.1 Requests for different rates					
12.2 Exchange rates for monthly financial transactions					
12.3 Exchange gains and losses					
12.3.1 Policy for recognising exchange gains and losses					
25.3.2 Gains and losses on monthly revaluation process					
12.3.3 Gains and losses on transfers from donors					
12.3.4 Gains and losses on local income					
12.4 Converting to local currency					
12.5 Transferring funds through Global Currencies					
13. Reserves and Provisions					
13.1.1 Policies for reserves					
13.2 Specific reserves					
13.2.1 Reserve for motor vehicle insurance					
13.2.2 Reserve for motor vehicle replacement					
13.2.3 Reserve for exchange gains and losses					
13.3 Provisions					
13.3.1 Provision for staff termination benefits					
13.3.2 Example staff insurance policy					
13.3.3 Example staff welfare scheme					
14. Fixed Assets					
14.2 Accounting treatment					
14.3 Fixed asset register					
14.4 Annual physical inventory					
14.5 Land and buildings					
14.6 Motor vehicles					
14.7 Disposal of fixed assets					
14.8 Hiring LDS assets to projects					
15. Procurement					
15.1 LDS Procurement Policy					
15.2 Day to day operation					
15.3 Authorisation limits					
15.4 Supporting documentation					
15.5 Donor requirements					
15.6 International procurement					
16. Stock					
16.1 Accounting treatment					
16.2 Record keeping and forms					
16.3 Physical counts					
16.4 Warehouse					
16.5 Insurance					
17. Bank accounts					

LDS Finance Manual Compliance Check List				Submitted by: Date:
Chapter of the Finance Manual	Complying?			Problems in Complying and Other Comments
	Yes ✓	No ✓	Partly ✓	
17.1 Selecting banks				
17.2 Donor requirements for separate bank accounts				
17.3 Opening bank accounts				
17.4 Bank mandates				
17.4.1 Authorised signatories and lists of bank signatories				
17.4.2 Signing authority				
17.5 Currency				
17.6 Interest earnings and calculations				
17.7 Cheques				
17.8 Bank reconciliations and bank reconciliation form				
17.9 Bank overdraft or bank loan				
17.10 Bank file				
17.11 Annual summary of bank accounts to be submitted for audit				
18. Cash floats				
18.1 Cash handling policy				
18.1.2 Imprest system for cash and petty cash				
18.3 Cash payments				
18.4 Cash receipts				
18.5 Cash counts				
18.6 Cash limits				
18.7 Security				
18.8 Cash for remote projects				
18.9 Emergency hard currency cash reserve				
19. Accounting for cash and bank transaction				
19.1 Payments				
19.1.1 Payment voucher				
19.1.2 Processing the payment				
19.2 Receipts				
19.2.1 Receipt voucher				
19.2.2 Processing the receipt				
19.3 Transfers between bank / cash accounts				
20. Providing financial support to partners				
20.1 Assessment of potential partners				
20.2 Written partnership agreement				
20.3 Accounting treatment				
20.4 Release of funds				
20.5 Minimum criteria for local partner selection				
20.6 Sample partnership agreement				
21. Staff advances				
21.1 Personal advances				
21.1.2 National Staff				

LDS Finance Manual Compliance Check List					Submitted by: Date:
Chapter of the Finance Manual	Complying?			Problems in Complying and Other Comments	
	Yes ✓	No ✓	Partly ✓		
2411.3 Limits to personal advances					
21.1.4 Accounting for personal advances					
21.2 Work advances					
21.2.1 Limits to work advances					
21.2.2 Accounting for work advances					
21.3 Currency of advance					
21.4 Termination of service					
22. Business travel expenses					
22.1 Air travel					
22.2 International staff travel expense re-imbursement					
22.3 National staff travel expense re-imbursement					
22.4 Travel approval					
22.5 Duty travel funded by other organisations					
23. Payroll					
23.1 Payroll system					
23.2 Processing the payroll					
23.3 Payroll disbursements					
23.4 Payroll journal					
23.5 Payroll file					
24 & 25. Personnel					
24.1 National Staff Personnel Policy					
25 Staffing of the finance department					
25.7 Job description for the Finance staff					
26. Vehicle Management					
26.1 Vehicle Policy					
26.2 Log books and fuel consumption logs					
26.3 Fuel consumption reports					
26.4 Fuel misuse					
26.5 Vehicle maintenance					
26.6 Authorised drivers					
26.7 Official use of LDS vehicles					
26.8 Personal use of LDS vehicles					
26.9 Security					
26.10 Insurance					
26.11 Fleet management services					
27. Filing and archiving					
27.1 Filing systems					
27.1.1 Filing systems for bilateral projects					
27.1.2 Location of documentation					
27.2 Retention and storage of documents					

LDS Finance Manual Compliance Check List				Submitted by: Date:
Chapter of the Finance Manual	Complying?			Problems in Complying and Other Comments
	Yes ✓	No ✓	Partly ✓	
35.8 Appeal funding				
36. General information				

5. BUDGETS

5.1 THE ROLE OF BUDGETS

The budget is the cornerstone of any financial system. In the LDS context it indicates the amount of funds the programme needs to raise in order to achieve its objectives each year. Budgets for LDS serve the following four key functions:

- ◆ **Planning**
- ◆ **Fund raising**
- ◆ **Controlling expenditure during project implementation**
- ◆ **Monitoring and evaluation**

5.2 APPROACHES TO BUDGETING

There are two basic approaches in forming a budget, both of which are commonly used within LDS.

5.2.1 Incremental Budgeting

This type of budget begins with the previous year's actual expenditure as a basis. Then a percentage is either added or deducted. This is a simple and quick method. It works well, for example, when calculating the cost of stationery or telecommunications. However, it also has serious limitations. It assumes that operations will continue more or less unchanged. It does not encourage fresh thinking or a thorough review of ongoing expenditure. Instead it tends to perpetuate existing inefficiencies.

5.2.2 Zero-Based Budgeting

This type of budget begins with a clean sheet or a zero base. The budget is built on the specific objectives in the Project proposal. It means that the people who prepare the budget are required to explain and justify every line of expenditure. This results is a well-planned and precise budget.

5.3 BUDGETING FOR LDS PROJECTS

LDS projects take on further important dimensions. The following must always be the basis for preparing budgets for LDS projects:

- ◆ LDS Country Strategy (CS) 2019 - 2023
- ◆ LDS PME System

5.3.1 LDS Country Strategy 2019-2023

- i. All activities within an LDS country programme must fit within the LDS Country Strategy 2019-2023. It has three broad pillars where each has a strategic objective:
 - Theme 1: Sustainable Livelihoods
 - Theme 2: Justice and Peace.
 - Theme 3: Diakonia capacity of the ELCZ
- ii. *The LDS Global Strategy 2019-2023 can be read separately.*
- iii. The Country Strategy (CS) is the basic document that sets out priority goals and the strategies to reach them. The Country Strategy provides the overall framework of what LDS can and should do and what it should not. It is not in itself an operational plan but a guideline for the formulation of such plans.
- iv. The Country Strategy contains a wide operational context and the potential role of LDS, justification for LDS's presence, the outline of substance of LDS intervention, the broad resource requirements and sources, and broad management issues. The LDS Board approves the Country Strategy.
- v. The Country Strategy does not contain a budget.

5.4 THE BUDGETING PROCESS

- i. It is extremely important that the process of **drafting the budget** involves finance and project staff working together. It should involve staff from the relevant project offices as well as headquarters staff.
- ii. The Annual Budget Cycle
- iii. The annual budget for the following year must be produced by 30th November.
- iv. It is important that by this time the Programme Operations budget (core cost) for the following year is produced. Management will know if they are able to fully recover these costs from existing and anticipated projects and plan accordingly.
- v. At the beginning of every financial year budgets are to be submitted to the LDS Board for approval.
- vi. The process of **reviewing a budget** once the draft has been completed should be undertaken by the Finance & Administration Coordinator, the Programme Coordinator and the Director.

Key questions to ask include:

- (1) Does the budget match the narrative?
- (2) Does it match the donor guidelines?
- (3) Are the amounts reasonably based upon recent experience? If different, can the difference be justified?
- (4) Does the budget include realistic amounts for headquarter salaries and shared office costs?
- (5) Is the budget adequately explained in the notes?

Refer to the following page for a Budget Check List.

5.5 BUDGET CHECK LIST

BUDGET CHECK LIST		✓
1. General		
1.1	Do all of the formulae in the Excel spreadsheet work properly?	
1.2	Does the unit cost multiplied by the number of units = total amount?	
1.3	Has each section been subtotalled?	
1.4	What is the currency of the budget? Is it clearly identified?	
1.5	Does the grand total formula include all sub-totals?	
1.6	The actual budget must be a single currency not a mix - although the budget workings may involve another currency converted to the main currency of the budget.	
1.7	If the budget workings use exchange rates, are they consistently applied throughout the budget?	
18	Has the budget format been set up to allow easy reporting in Accpac?	
2. Project Document Budgets		
2.1	Is it in the format required by the donor?	
2.2	Should there be a summary page showing the budget by category only?	
2.3	Does the donor require a separate salary line for each staff member?	
2.4	Has it been cross checked to the donor guidelines?	
2.5	Does the budget match the narrative in the Work Plan and Log Frame?	
2.6	Are the amounts in the budget reasonably based upon recent experience? If different, can they be justified?	
2.7	Does the budget include realistic amounts for core costs?	
2.8	Does the budget include realistic amounts for other often forgotten costs such as staff costs, vehicle running costs, equipment maintenance, audit fees, start-up costs (e.g. recruitment of new staff, publicity, and office renovation)?	
2.9	Is the budget adequately explained in the narrative?	
2.10	Has the budget been agreed by project staff?	
2.11	Has the budget been agreed by finance staff?	
3. Working Budgets		
3.1	Is it within the limits of available funding?	
3.2	Have all items specifically requested by donors been included?	
3.3	Is the budget in the same format as the budget in the Project Document?	
3.4	Does the budget include realistic amounts for core costs?	
3.5	Does the budget include realistic amounts for other often forgotten costs such as staff costs, vehicle running costs, equipment maintenance, audit fees, start-up costs (e.g. recruitment of new staff, publicity, and office renovation)?	
3.6	Has the budget been agreed by project staff?	
3.7	Has the budget been agreed by finance staff?	

5.6 USING THE BUDGET TO MONITOR AND CONTROL EXPENDITURE

Every month, actual expenditure against this budget is reviewed in order to see if any corrective action is required. Budget monitoring is led by Finance and Administration Coordinator supported by the PC. This must be done by both project staff and Finance Staff. Corrective action is required if actual expenditure for the year-to-date against one or more specific budget lines is above or below the budget. Donors stipulate the variance allowable for each budget line.

5.6.1 Corrective Action

Corrective action will aim to ensure that by the end of the year expenditure will equal income. That is, unless the project extends past the end of the year. Corrective action can take three forms:

- i. Control overall expenditure for the rest of the year to bring it in line with the budget
- ii. This option represents using the existing budget to control activity. The total amount of the budget is not actually changed.
- iii. Review the budget lines and, where necessary, revise the Budget.
- iv. This option means that senior management has agreed in writing, after proper analysis, that some budget lines are no longer accurate and that they need to be changed. It means a re-allocation of funds from one budget line to another.
- v. If the expenditure relates to particular budget lines, submit a request to the donor to request a realignment of the particular budget lines.
- vi. This option means that the donor must be kept fully informed at all times. It also means that a request for realignment must be sent to the donor in a timely manner, so that approval can be received in time for proper implementation.

5.6.2 Budget Realignment & Revisions

When budget revisions or amendments and realignments are necessary, always check donor guidelines. It is also advisable to speak to the contact person at the donor agency and seek their advice on what is and is not allowable.

6 REPORTS FOR COUNTRY MANAGEMENT

6.1 WHO NEEDS FINANCIAL REPORTS AND WHY?

Financial reports will be used by different stakeholders for a variety of reasons.

Users of financial management reports:

- **Senior management.** They have overall responsibility for the proper management of all projects and they need to ensure that projects are being implemented as planned. They monitor progress of the whole organisation.
- **Thematic Advisors & Project managers.** They need to know that expenditure is in line with budget, how much has been spent so far, how much is still available, and what is left to spend.
- **Finance staff.** They need to ensure that there are sufficient funds available each month and that expenditure is in line with budget.

6.2 MANAGEMENT REPORTS FOR SUBMISSION

- i. Monthly management reports are the key tools for tracking progress against budget. Proper review of the reports will identify the areas for corrective action. For this reason the reports need to be timely, accurate and relevant.
- ii. **Timely** The deadline is the 5th day of the following month.
- iii. **Accurate** because LDS and donors will advance funds on the basis of the information contained in the reports. Country management will make expenditure decisions in line with the reports. .
- iv. **Relevant** Relevance means concentrating on the key information – for example presenting project income and expenditure statements in the same format as the budget agreed with the donors.

6.3 MONITORING REPORTS – MONTHLY QUARTERLY AND ANNUALLY

Different donors may have specific reporting formats and timelines. These requirements are to be complied with in accordance with the signed agreements.

6.3.1 Monthly Monitoring Report

Monthly project reports must be produced and distributed to project managers and LDS Director. These should show Budget vs Actual and the variance column. These must be submitted every 5th of the following month.

Every 25th of the month the Finance Officers are required to submit a monthly cashflow request to the Finance & Administration Coordinator.

6.3.2 Quarterly Monitoring Reports

- i. A Quarterly Monitoring Report (QMR) is to be prepared and submitted to LDS HQ by 5th of April, July, and October. The QMR is then submitted by 30th April, July, October.
- ii. Some donors require quarterly monitoring reports and these must be prepared as per signed agreement with donor.
- iii. The quarterly Financial management reports must include Balance sheet, Income statement and summary project report for the quarterly board meetings and distribution to project managers
- iv. A Three Month Cash Forecast is also required at the beginning of each quarter. The three month forecast assists the Financial & Administration Coordinator in her role of cash management. The FAC must ensure that sufficient funds are readily on hand to meet the requirements of all LDS departments.
- v. Refer to the PME Manual for formats and guidelines.

6.3.3 Annual Reports

Annual Audited Financial statements must be produced and be distributed to Director, Program Coordinator, Donors, LDS Board. The contents of each report are outlined below.

- ① To avoid information overload please send each donor a tailored version of the Financial Report that contains the individual project Income and Expenditure Statement only for those projects that they actually funded.

6.4 DEADLINES FOR SUBMISSION

Reports must be sent to management every month on email by the 5th day of the following month. Quarterly reports must be submitted by 15th of April, July, October and January.

6.5 CONTENTS AND PURPOSE OF EACH REPORT

6.5.1 Balance Sheet or Statement of Financial Position

Generally, the Balance Sheet / Statement of Financial Position will be used by senior management within the program in order to obtain an overview of the programme's financial position, particularly its liquidity.

6.5.2 Statement of Income Position

The report is intended to show the movement of cash that has been generated for the year to date.

6.5.3 Project Summary Report

This report is the next in importance to the Balance Sheet. Because the report is presented at a summary level, it is a valuable tool for all users of the reports.

6.5.4 Income Matrix

This report shows income received from donors for each project for the year to date.

It provides an understanding of which projects each donor supports.

6.5.5 Statement of Income Position for each Project

- i. The reports show the income received from each donor and expenditure by individual budget lines and the balance at the end of the reporting period.
- ii. For other projects, the budget should be as shown in the agreement signed with the donor. This budget may span more than one year.
- iii. There are columns for year-to-date income, year to date expenditure, the budget balance remaining expressed in currency and the budget balance remaining expressed as a percentage.

6.5.6 Bank Reconciliation for each Bank Account

Bank reconciliations for all banks must be sent to Harare HQ to verify that this important internal control has been properly done for the month to date. This is a **mandatory** procedure

6.6 CHECK LIST FOR MONTH END PROCESSING

- i. It is always advisable to maintain a month end check list.
- ii. The check list will include all the necessary steps that must be completed prior to finalising the monthly reports..
- iii. It should also serve as a permanent record of the work completed, and the final version should be signed by the Finance & Administration Coordinator and filed with the month end management reports.

Refer to an example Check List for Month End Processing on the following page.

LDS (name of field office)

Check List for Month End Processing – Date:

Preparation						√			
Transaction Processing		Location 1		Location 2		Location 3		Location 4	
		Bank	Cash	Bank	Cash	Bank	Cash	Bank	Cash
Cash Books									
Received in head office (enter date)									
Check with vouchers and verify coding (initial)									
Check reconciliation									
Import to Accpac									
Post to Accpac									
Agree Accpac to bank reconciliation									
Download income files from and post any income to relevant projects									
Check any unidentified income to see if it belongs to the country									
Reconcile Accpac Head Office Account in . Post any transactions to relevant accounts.									
Post all standard journals for the month:									
Vehicle rental									
Payroll									
Provident fund contributions									
Post all accruals and prepayments for the month									
Check the balances on the control accounts									
Payroll clearing									
Provident fund clearing									
Medical benefits clearing									
Recharge staff for personal use of vehicles									
Recharge staff for personal use of telephones									
Process time sheets									
Charge Programme Operations to projects									
Entries for purchase or disposal of fixed assets that are in the Balance Sheet									
Run revaluation routine (NB always take a backup before running this routine)									
Produce draft budget vs actual reports and circulate to project managers for review with a brief narrative report highlighting key or unexpected variances									
Run Trial Balance									
Run month end report and reconcile to Trial Balance for:									
Projects									
Balance Sheet									
NB at the end of this process each account on the Trial Balance should be ticked once against either a project account or a Balance Sheet account. Investigate and correct any errors.									
Make any necessary amendments									
Run data integrity check (backup beforehand)									
Prepare and submit monthly report (contents as defined in the Finance Manual)									
Once completed – file this sheet in the month end report file together with:									
A copy of each of the above reports									
The Accpac batch log for the month									
The Accpac back up log for the month									
Revaluation report									
Lock the month in Accpac fiscal calendar									
Inactivate all Accpac General Ledger accounts for the projects that closed in the month									

6.7 CHECK LIST FOR MONTH END REPORTS

Check to ensure the following are in the Reporting Package		✓
Monthly Finance Narrative Report		
Balance Sheet		
Project Summary Report		
Income and Expenditure Statement		
Matrix of income by donor by project		
Income and Expenditure Statement for each project (ensure new projects are included)		
Bank reconciliation for each bank account		
Schedule of staff advances		
Schedule of local income		
Cash flow forecast		
Check the accuracy of each report in the reporting package		
Income and Expenditure Statement for each project:		
Does the total income and total expenditure agree with the Project Summary?		
Does the balance brought forward agree with the Balance Sheet?		
Does the total income agree with the Matrix of income?		
Balance Sheet:		
Does the total bank balance agree with the individual bank reconciliations?		
Does the balance for Fixed Assets agree to the reserve account in Liabilities?		
Project Summary Report:		
Does the forecast year-end balance agree with the cash flow forecast?		
Matrix of Income by Donor:		
Does the total income agree with the Project Summary?		
Check the progress against budget		
Is there a zero balance in Programme Operations Projects 4000 and 4001?		
Can it be clearly seen which projects have been charged with Programme Operations:		
Are any projects showing forecast year end deficits?		
Have deficits been followed up with project staff?		
Is the proposed action satisfactory?		
Are any projects showing forecast year end surpluses?		
Have surpluses been following up with project staff?		
Is the proposed action satisfactory?		
Are there any individual budget lines with major variances?		
Is the proposed action satisfactory?		
Have donors been informed or requested for approval?		
Do any budgets need to be revised?		
Is the last approved Working Budget been set up in Accpac?		
Narrative Report		
Have all the questions been properly answered?		

7. REPORTS TO DONORS

7.1 DONOR REPORTING

Donor agencies have specific guidelines, rules and formats for proposals and for reports that must be followed.

7.1.2 DONOR REPORTS

The main financial reports that will be required by donors during the life of a project are:

- ⇒ Interim narrative and financial reports
- ⇒ Budget revision requests
- ⇒ Final narrative and financial reports
- ⇒ Audit report

7.2 CHECK LIST FOR FINANCIAL REPORTS FOR DONORS

A check list should be prepared that is based on the requirements in the donor guidelines. The following are items that should be checked for all financial reports to donors.

	Check List for Financial Reports for Donors	✓
1.	The report must be in the format required by the donor.	
2.	Clearly show the name and address of the LDS	
3.	Clearly show the name and address of the donor.	
4.	Clearly shown the name and department of the donor contact person.	
5.	Clearly show the correct title and reference number.	
6.	Show the implementation period.	
7.	Show the date of the report and whether it is a quarterly, six-monthly, annual or final report.	
8.	Show the budget.	
9.	Show the actual expenditure to date.	
10.	Show the variance between actual and budget, both in monetary terms and as a percentage.	
11.	Use the “=ROUND (formula, 0)” function in Excel where appropriate. This function helps to eliminate rounding differences.	
12.	At the top of each column, show the currency used.	
13.	Check that the exchange rates that have been used are as specified by the donor.	
14.	Show the exchange rates used, if applicable.	
15.	Check the report against the monthly management report to ensure that the report for the donor has the same figures. If there are any differences the coding in the Accpac reports must be checked in order to locate the error.	
16.	Check the financial report against the narrative report to ensure that there are no inconsistencies between the two reports.	
17.	Provide notes to the financial report to explain significant variances and cross check them with the narrative report.	
18.	Manually check the figures in the report and tick all totals on the file copy.	
19.	Check that the full headings are on the top of each page.	
19.	Do a spell check.	
19.	Initial and date all relevant sheets when they have been checked.	
20.	File all documentation, including working papers, in the appropriate file.	
21.	Send the report to the donor – by email, followed by a hard copy by post.	
22.	When a report is sent by email, make sure that the file does not have any links.	

7.3 OTHER USERS OF REPORTS

Financial reports donors are often used for other interested parties, such as the following:

- i. **Potential new donors** – to get a picture of the LDS financial position in order to consider whether to support it in the future.
- ii. **Government departments** - to oversee the activities of LDS. There are annual returns required for PVOs to submit to the government ministries.
- iii. **Local partners** or local NGOs that are working with LDS.
- iv. Ultimately, the **beneficiaries** have the right to know how the funds received are being used in the way they are intended.

8. CONTRACTS WITH DONORS

Some international agencies have very stringent terms and conditions. It is of the utmost importance that LDS when receiving a grant from an international agency takes note of some special clauses in order to stay compliant. The notable ones are the corruption clause and anti-terrorist activity clauses.

8.1 Corruption Clause

For an example ACT CoS Clause 9 of the Annex states “...the LDS ensures that agreements and contracts with staff, partners and suppliers entered into by the LDS include the following anti-corruption clause:

“No offer, payment, consideration or benefit of any kind, which could be regarded as an illegal or corrupt practice, shall be made, promised, sought or accepted - neither directly nor indirectly - as an inducement or reward in relation to activities funded under this agreement, incl. tendering, award or execution of contracts. Any such practice will be grounds for the immediate cancellation of this agreement/contract and for such additional action, civil and/or criminal, as may be appropriate.”

8.2 ANTI-TERRORIST CLAUSE

- i. LDS must ensure that no dealings or business is done with suppliers, individual or companies that have a history of supporting or getting involved with terrorist or money laundering activities.
- ii. The FAC must carry out background checks using available software to ascertain if one has been involved in such activities. Some donors provide this software.

8.3 Prior to Signing an Agreement

See the form “Approval Checklist for Projects”.

- i. All project agreements must be signed by the LDS Director.
- ii. Project of USD 50,000 or more must be signed by the LDS Director, and by the donor.
- iii. When negotiating the budget, LDS must ensure that an adequate amount is included for core costs.

8.4 After Signing an Agreement

- i. Distribute copies of the agreement to all staff who will be responsible for implementing and

reporting on the project. Prepare a check list of all the requirements in the agreement and distribute it to staff.

- ii. Hold a meeting with all staff who will be involved with the project and discuss the terms and conditions of the agreement. Such inception meetings are organised and led by the Program Coordinator
- iii. Do not commence implementation until the first instalment has been received. **If it is necessary to pre-finance the first instalment LDS Director must approve.**

9. YEAR END AND EXTERNAL AUDIT

The external audit is an extremely important process in terms of showing commitment to transparency and accountability and it is crucial in terms of winning and maintaining donor confidence.

9.1 PRIOR TO YEAR END

Management accounts must be properly monitored on a monthly basis, to save a considerable amount of time and trouble when producing the year end accounts.

9.2 DEADLINES FOR ANNUAL EXTERNAL AUDITS

LDS programmes must have an external audit performed on an annual basis. As well as the mandatory external audit, it is likely that each LDS will have to undergo donor audits from time to time.

The financial year for LDS is twelve months ended 31st December

The Terms of Reference for the auditors & Year End Instructions from Finance & Administration Coordinator, together with the standard formats and layouts that must be used, are communicated to the auditors by 30th November.

The other deadlines are as follows and they must be met:

External Audit Deadlines:

- i. First draft of audit report as soon as completed – while audit is in progress but not later than 31 January.
- ii. Final draft by 28 February or sooner.
- iii. Signed audit report to LDS Board by 30th March.
- iv. 30 April – Management Letter to be finalised
- v. Specific donor audits – As per signed contract or agreement

In order to meet the deadlines, LDS is advised to arrange for interim audits before year end so that the auditors can perform most of their vouching beforehand. Furthermore, finance staff should avoid taking leave, except for public holidays, during the months of December to March.

9.3 CHECK LIST OF TASKS PRIOR TO YEAR END

There are a number of tasks and reviews that should be performed in November and December each year, as follows:

Check List of Tasks Prior to Year End		✓
1.	Interim audit to be carried out before year end.	
2.	Cash balances, both at the project offices and the head office, should have a balance as close to 0 as possible.	
3.	Any cash on hand on the last working day of the year should be banked so that cash on hand is zero on 31 December.	
4.	Reconciliations to be completed for bank accounts, cash accounts, and all other Balance Sheet accounts.	
5.	Review debtor accounts to ensure that they have been properly billed, that the balances are realistic, that full payment will be received, and bad debts written off.	
6.	Review staff advances to ensure that they are in line with stated policies, and take action to ensure that they are either repaid or accounted for in December.	
7.	Review creditor balances to ensure that they are realistic.	
8.	Review accrued expenses to ensure that they represent justifiable costs that are fully committed and properly explained by relevant supporting documentation.	
9.	Review suspense accounts to ensure that they have all been cleared. These accounts are normally used when it is unsure as to the accounting treatment for a particular transaction. For these reasons, their use should only be temporary and should be cleared before the year end.	
10.	Ensure that there is an up-to-date policy that explains the nature and purpose of each amount under Reserves.	
11.	Check the allocation of Reserves funds to ensure they have been allocated to the projects of greatest need.	
12.	Review project balances to ensure that any year end deficits will be receivable in the New Year, there are no remaining balances on projects which closed during the year, and any planned balance carried forward are at a level that will be acceptable to donors.	
13.	Review all donor contracts and agreements to ensure that they are all readily available on file and any terms and conditions that relate to the year end (e.g. the amount that is allowed to be carried forward) have been met.	
14.	Ensure that all donated commodities and gifts in kind received during the year have been recognised in the accounts	
15.	Make sure the Fixed Asset Register is up to date.	
16.	Where applicable, ensure that administration fees (e.g. UNHCR) have been taken into account.	
17.	Ensure that payment requests that need to be processed in the year are done by 15 December. This applies both to funding transfers and payments to suppliers. This will be of particular importance where specific donors (e.g. UNHCR) have rules relating to actual expenditure and require that funds leave the relevant bank account during the year of the grant.	
18.	Before the books are closed for the year, review Chapter 16 of the Accpac Manual covering <i>Year End Procedures</i> specific to Accpac.	
19.	Make sure that the external auditors have been booked well in advance. This is important because the auditors are likely to be very busy at this time of the year and the ability to meet deadlines must not to be compromised by their lack of availability. Having a date for the audit set well in advance also helps to plan staff workloads to ensure the work is ready when the auditors arrive.	

Check List of Tasks Prior to Year End		√
20.	Ensure that all items in the Management Letter for the previous year have been attended to.	

9.4 SELECTION OF EXTERNAL AUDITORS

- i. Responsibility for contracting the auditor lies with the LDS Director and the Finance & Administration Coordinator and finally to be approved by a resolution of the LDS Board.
- ii. Any change in the audit firm performing the external audit must be approved in writing by the LDS Director and the Finance and Administration Coordinator. The reason for changing auditors must be submitted to LDS board. Their choice must follow the normal procurement process.

9.5 THE AUDIT REPORT

It is the responsibility of the LDS Director and the Finance & Administration Coordinator to:

- a) Produce a set of accounts to be audited.
- b) Ensure that all issues in the Management Letter are properly addressed before the next audit. Items must not appear again in the next Management Letter.
- c) Send terms of Reference to the auditor on engaging them.
- d) Ensure that the published accounts of LDS are compliant with IAS
- e) Ensure that the formats must comply with the reporting requirements as laid out in the relevant agreements signed with the agencies.

9.6 DISTRIBUTION OF AUDIT REPORTS

LDS has responsibility for ensuring that all other donors & the LDS Board receive copies of the audit report as required.

9.7. AUDIT REPORT FORMAT

The audit report should include the following schedules:

- a) Balance Sheet/Statement of Financial Position
- b) Statement of Income Position
- c) Statement of Cash Flow
- d) Appendix: Project by Project Financial Reports
- e) Appendix: Program Operations (Director's Office and Programme Coordination cost centres)

Each project, no matter how small, must be on a separate page.

9.8. Check List

A check list of the items that must be checked should be completed prior to submitting the draft and final audit reports to the auditors

Refer to the following pages for the list of Items to be Checked.

AUDIT REPORT – ITEMS TO BE CHECKED		
LDS	Date Submitted:	✓
1. Statement of Financial Position (Balance Sheet):		
1.1	The previous year balances to agree with last year's audit report.	
1.2	Ensure the correct accounting is done for unspent project funds/pre-financed project funds (Contributions Received in Advance/Contributions Receivable).	
1.3	Ensure that long-term liabilities are shown separately from reserves.	
1.4	Check that the totals add up correctly and the Balance Sheet does balance.	
1.5	Make sure figures foot (total) properly with no rounding errors.	
1.6	Make sure that the numbering of the appendices are correct.	
1.7	Make sure that the numbering of the Notes are correct.	
1.8	Make sure that the zeros at the bottom (to show any imbalance in the draft reports) do not print in the final audit report.	
2. Statement of Income Position (Income and Expenditure Statement)		
2.1	Check the reserves – beginning of the year balance. It must agree with the closing balance in the last year's audit report.	
2.2	The reserves – end of year balance must agree with the total reserves balance on the Balance Sheet (if none, then the balance should be 0).	
2.3	The change in reserves must be included as non-project items.	
2.4	Check all the income and expenditure totals against the individual projects.	
2.5	Make sure figures foot (total) properly with no rounding errors.	
2.6	Project numbers must be shown – including the country code.	
2.7	Make sure the numbering of the appendices are correct.	
2.8	Projects without transactions must be included in both sections.	
3. Statement of Cash Flow		
3.1	Result for the year equals change in reserves from Inc/Exp statement – previous year and this year.	
3.2	Additions and disposals of fixed assets agree to the details in the Notes.	
3.3	Cash balance at beginning of year equals prior year ending balance of bank and petty cash accounts.	
3.4	Cash balance at end of year equals prior year ending balance of bank and petty cash accounts.	
4. Other Projects		
4.1	Check that the name of the donor is clearly written as part of the headings	
4.2	Check that the spelling of donors' names are correct in all appendices.	
4.3	Check that the income in projects agrees with the project spreadsheets.	
4.4	Check that the project budgets agree with the budgets issued.	
4.5	Check that the title of the project is correct.	
4.7	Check that all project balances are 0 in the report and in ACCPAC.	

AUDIT REPORT – ITEMS TO BE CHECKED		
LDS	Date Submitted:	✓
4.8	For all projects make sure that the implementation dates are stated correctly.	
4	For projects make sure the contract numbers are entered	
4.10	Check that the headings carry over to the following pages, where applicable.	
4.11	In multi-year funding, check that the total column is correct.	
4.12	Check that projects have activity costs and not just overhead type costs.	
4.13	Check that the donor project numbers are in the headings.	
4.14	Check that the LDS codes are included with the project numbers.	
4.15	Check that there are sufficient details in the Notes and figures total correctly.	
4.18	Check the scaling of all pages.	
4.19	Check the column widths on each page.	
4.20	Do a spell check.	

9.9 NOTES TO THE AUDIT REPORT

THE LUTHERAN DEVELOPMENT SERVICES ZIMBABWE NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007

NOTE 1 - ACTIVITIES

GENERAL

The Lutheran Development Service (LDS) is a body corporate registered as a Welfare Organisation in terms of subsection (5) of Section 9 of the Welfare Organisation Act of the Government of Zimbabwe, with a registration number of PVO:1/2003. The LDS evolved over a number of years of transition from the Lutheran World Federation - Department for World Service Zimbabwe Programme, to become the development arm of the Evangelical Lutheran Church in Zimbabwe. The organisation is managed by a non-executive Board of Directors.

ZIMBABWE

The responsibility of the LDS is to offer humanitarian and development assistance which encompasses:

- Alleviating human suffering through Christian Services and the discharge of Christian Social responsibility;
- Contributing to both spiritual and material needs of the communities among whom LDS works;
- Promoting self-reliance among the communities;
- Improving social welfare through the implementation of development programs aimed at alleviating the suffering of the poor
- Providing relief and rehabilitation in times of disaster; • Promoting and advocating for human rights.

LDS operates in (insert number of districts) districts, namely (mention the names of the current operational districts). Its operations link development and relief through the Integrated Rural Development Programme and ensure capacity building of the beneficiaries by employing participatory approaches to rural development.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The financial statements have been prepared in accordance with and comply with the financial regulations and the accounting principles of the Lutheran Development Services. The accounting policies have been based in part on the general principles of the International Financial Reporting Standards, as detailed in the International Accounting Standards Board Framework for the Preparation and Presentation of Financial Statements.

2.2 Basis of preparation

The financial statements are presented in U.S. Dollars.

The financial statements have been prepared under the historical cost convention, except for securities which are stated at fair value. Fair value is the amount for which an asset, liability or security could be exchanged between knowledgeable and willing parties in an arm's length transaction.

Preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates and the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

2.3 Restricted and unrestricted funds

The financial statements distinguish between Restricted and Unrestricted funds. Restricted use funds are those funds received from third parties who have imposed restrictions on the purposes for which they may be used. Unrestricted funds are those funds where there are no externally imposed restrictions and include assets freely available or appropriated to reserves for internally designated purposes.

2.4 Foreign currency transactions

The presentation and functional currency of the LDS Zimbabwe is the U.S. Dollar. The books of account are maintained in U.S. Dollars. Assets and liabilities, excluding fixed assets, denominated in currencies other than U.S. Dollars have been translated at the 31 December 2020 rate of exchange per the European Commission Website InforEuro.

Income and expenditure has been translated into U.S. dollars monthly using the previous month end exchange rate per the European Commission Website InforEuro. The local currency of the programme is x. The exchange rates used during the year between the local currency and USD were as follows:

MONTH	1 USD =
January	4,800
March	4,700
February	4,800
April	4,800
May	4,950
June	4,800
July	5,000
August	4,800
September	4,700
October	4,800
November	4,800
December	4,900

Exchange gains and losses resulting from the application of the accounting principles outlined above are credited or charged to the applicable project or Programme Operations.

2.5 Revenue and expenditure recognition

Restricted use funds are normally received as a result of a specific solicitation or with donor imposed restrictions and are recognised as income over the duration of the programme or project in proportion to the achievement of the conditions attached to the contributions. Income for the year is therefore equal to expenditure. Expenditure in excess of funds received for projects or specific purposes are recorded in assets. Excess of expenditure is written off in the event that management determines that such over expenditure is unlikely to be recovered by additional funding. Contributions received but not yet recognised are included in Current Liabilities.

For projects with a project life of one year, the percentage of completion method has been applied in determining which donor the funds were received in advance from unless the donor has specified the time period that funds were meant for. For emergency projects, the first-in, first-out method has been applied (as per ACT Alliance policies) in determining which donor the funds were received in advance from. For projects that have a project life beyond one year, and if no donor requirement was known, then percentage of completion method was used where applicable.

In some instances, in-kind contributions for projects are recognised in the financial statements and an equal amount of expenditure is recorded. In 20xx, the amount included in revenue and expenditure related to in-kind contributions is USD xxxx. In-kind contributions are recorded at the value noted in the accompanying shipping documents upon receipt.

In-kind contributions of fixed assets that are not restricted by the donor are accounted for using the same principles as used for purchased assets (see Note 2.9), with acquisition costs being determined on the basis of donor values.

2.6 Cash and cash equivalents

The LDS considers cash on hand and amounts due from banks to be cash and cash equivalents.

2.7 Accounts receivable

Receivables are stated at original amount less provision made for impairment of these receivables.

A provision for impairment is made when there is objective evidence that the LDS will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

2.8 Inventories

Inventories purchased from Restricted Use Funds are expensed in the year of purchase. Rights over inventories would not generate future economic benefit to the LDS due to the short-term nature of programme contracts and the terms of contracts where rights over residual programme assets are vested with the grantors.

There are no inventories of a material nature purchased from Unrestricted Use Funds.

2.9 Fixed assets

a) Tangible assets

Fixed assets purchased from Restricted Use Funds are expensed in the year of purchase. It is considered improbable that such expenditures will generate future economic benefit to the LDS due to the short-term nature of programme contracts and the terms of contracts where rights over residual programme assets are vested with the grantors.

Assets purchased from Unrestricted Use Funds are capitalized and amortized as detailed in Note 2.10. *They are insured for USD xxx.* Assets of a capital nature with a cost lower than USD 10,000 are not capitalised.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the Income and Expenditure Statement.

Repairs and maintenance costs are charged in the Income and Expenditure Statement during the financial period in which they are incurred.

Subsequent expenditure is capitalized only when it increases the probable future economic benefits of the asset.

b) Intangible assets

All intangible assets purchased have values less than USD 10,000 and are therefore expensed when purchased.

2.10 Fixed assets - depreciation

Depreciation is calculated on the straight-line method to write off assets to their estimated residual values over their estimated useful lives as follows:

Buildings	not applicable
Plant and equipment	5 years
Vehicles	5 years
Office furniture and equipment	7 years
Computers	4 years

2.11 Impairment

The carrying amount of the LDS's assets, other than inventories (see Note 2.8), are reviewed at each balance sheet date to determine whether there is any indication of impairment or, if earlier, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of the asset's net selling price or its value in use. Impairment losses are recognised in the Income and Expenditure Statement.

An impairment loss is reversed if there is an upward revision of the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the

carrying amount that would have been determined net of depreciation or amortization, if no impairment loss had been recognised.

2.12 Provisions

Employee termination benefits

These benefits are recognised proportionately as accrued over the employment period of personnel. They exist to meet any termination expenses under present contractual Programme working conditions.

Vacation pay

Vacation pay is recognised as leave is accrued

2.13 Reserves

Unrestricted reserves are earmarked as detailed below:

a. Capital reserve

This reserve was created as the result of a sale of property. Proceeds have been used to purchase land and buildings needed for the programme. To use this reserve for another purpose than stated in the policy, appropriate approvals must be given.

b. Other reserves (give details as appropriate)

2.14. Employee benefit costs

a) Staff Endowment Scheme

The LDS operates the following funds for field staff and all headquarters staff.

- Group Life Assurance
- LDS Gratuity Fund

b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or contract completion date.

Termination benefits are recognised on the basis of a formal committed plan to terminate the employment of current employees as per 2.12.

3.18 Taxes

Donations and grants received by LDS are not taxed.

3.19 Financial risk management

The LDS has minimal exposure to financial risks as detailed below.

a) Market risk - foreign currency risk

Foreign currency risk arises primarily when the U.S. Dollar falls against the local currency. Bank accounts are kept in both local currency and U.S. Dollar accounts to minimize this risk

b) Credit risk

The LDS's principal receivables are with its related donor agencies, governmental and intergovernmental agencies where credit risk is considered to be low. There is no significant concentration of credit risk.

c) Liquidity risk

As the LDS *Country* Programme has no investments in securities, there is no exposure to liquidity risk.

d) Interest rate risk

There is no significant short-term exposure to changes in interest rates as cash and cash equivalents are held as cash on hand or on-demand deposits and they earn minimal interest.

10. INTERNAL AUDIT IN LDS

Internal Audits Carried Out by Appointed Internal Auditors

- i. It is advisable that when LDS' annual income is above USD 2,000,000, should either employ a full time internal auditor on their staff, or assign an existing staff member to perform internal audits on a regular basis.
- ii. Notwithstanding this exception, it is advisable to conduct an internal audit of large appeals and to ensure the appeal budget includes an appropriate financial provision.
- iii. Internal Auditors are responsible to the Audit and Finance Committee of the Board and their method of operation will be agreed with the LDS Director.

11 CORE COSTS (OVERHEADS)

Core costs are the central administrative costs that LDS has to pay in order to run the programme. Core costs are essential for successful programme management.

11.1 Time Sheets

- i. There is no separate funding to cover core costs. When preparing budgets, the aim is to achieve **Full Cost Recovery** of the appropriate direct costs. Therefore, the total amount of core costs must be charged to projects. The method for charging core costs in LDS is per budget and by the means of time sheets. Time sheets are a mandatory procedure for all LDS projects as required by the donors.
- ii. Every project must therefore include a contribution towards core costs or overheads in its budget. The level depends on the type of project.
- iii. LDS must therefore:
 - a) Negotiate with donors for a fair contribution towards core costs.
 - b) Prepare a core costs budget that is accurate and realistic in order to ensure proper coverage of all core costs.
 - c) Ensure that all expenditure in Director's Office & Head Office Direct Programme Cost Centres must be allocated to projects each month. Small balance may be left in these cost centres at the end of a month, but at year-end the balances must be zero.

- d) Ensure that core costs are properly monitored, are not excessive, and provide value commensurate with the percentage charged to each project.
- e) Be able to justify the core cost charges to donors.
- f) Ensuring that staff keep time sheets. This applies to non-direct staff and to direct staff who are charged to more than one project. It does not apply to headquarters cleaners, drivers, guards, gardeners, and other ancillary staff.

12 OFFICIAL LDS RATES

- i. LDS uses exchange rates obtained from the European Commission Website (InforEuro) for the EUR and the local bank rate for the USD rate against local currency.
- ii. On the last working day of each month the LDS Accountant takes the Financial Times web site rates for those currencies that are commonly used by the LDS. These rates become the official LDS rates for the following month. The applicable rates are then entered into Accpac.
- iii. Where no rate is quoted by the InforEuro, LDS will obtain, in writing, a rate from their bankers on the last working day of the month.
- iv. For year-end closing purposes, the rate on 31 December will be used – i.e. the official LDS rate for January of the following year.

12.1 Use of Different Rates

- i. The overriding purpose of an exchange rate policy is to minimise gains and losses. Therefore, if LDS experiences excessive fluctuations during the month, the Accountant should use a different rate that minimizes gains and losses.
- ii. An exchange fluctuation is considered to be excessive if it results in an exchange loss of more than USD 300 in any one month. In reviewing the effect of the current month's exchange rate, the Accountant should run a revaluation batch after all transactions have been entered. This batch should not be posted until the effect of the LDS exchange rate has been observed. If a loss of more than USD 300 is projected, the Accountant should determine what rate can be used that would result in a minimal exchange difference.

Calculations to Justify the Rate Change

	When Approved LDS Rate is Used xx = 1 USD	When Actual Bank Rate is Used xx = 1 USD	When Requested Rate is Used xx = 1 USD
Balance brought forward	2,500	2,500	2,500
Estimated gain from sale of USD	600	1,000	400
Estimated loss from sale of USD	(5,000)	(500)	(500)
Projected revaluation gains	2,000	500	500
Projected currency revaluation losses	(8,500)	(2,500)	(2,500)
Closing balance	(8,400)	1,000	400

The above calculations should be used to determine a change in exchange rates.

12.2 EXCHANGE RATES FOR MONTHLY FINANCIAL TRANSACTIONS

- i. The official LDS exchange rate must be input to Accpac at the start of each month and used for all transactions during the month.
- ii. The only exception to this is where a contract with a funding agency states that other specific rates are to be used in the project accounts. In these instances, the rate stipulated in the donor agreement takes precedence over the official LDS rate.

12.3 EXCHANGE GAINS AND LOSSES

12.3.1 Policy for Recognising Exchange Gains and Losses

The LDS policy is to recognise exchange gains and losses at year end only. At the end of each month, the balances in the Statement of Financial Position are revalued by Accpac. The resulting exchange gains or losses are not recognised, or brought to account, but are reversed as at the first day of the following month. That is, except for 1 January. The procedure for 31 December is that the gains and losses are recognised and brought to account. A journal entry is raised to recognise the gains and losses and posted to the accounts. The journal is not reversed on 1 January.

12.3.2 Gains and Losses on Monthly Revaluation Process

- i. At the end of each month the Accpac revaluation process for the Statement of Financial Position accounts is run and the accounts are revalued. Accpac captures the monthly gains and losses that result from the revaluation process and places them in the Unrealised Exchange Gains and Losses Account in the Statement of Financial Position. The account should only be used to post the automatic transactions arising from the revaluation routine. That is, manual journals should not be posted to the account.
- ii. At the beginning of the following month, the revaluation journal is reversed in Accpac. As mentioned in 12.3.1 above, the revaluation journal is not reversed on 1 January. The only reason for carrying out the revaluation procedure each month is to check that there are no significant gains or losses in the month. If there are significant gains or losses, the Accountant should follow the procedure in 12.1 above. That is, to request permission from the LDS Finance & Administration Coordinator to use a different rate.

12.3.3 Gains and Losses on Transfers from Donors

All exchange gains and losses resulting from the conversion of USD (or other currency) received from a donor and converted into local currency are to remain in the accounts of LDS. Unless otherwise agreed in writing, exchange gains and losses should be recorded in the projects.

12.3.4 Gains and Losses on Local Income

- i. Exchange gains or losses can arise in projects that have been signed locally. Gains and losses also occur when the funds are received in local currency and spent in local currency. They occur because the reporting currency of LDS is USD and all projects are converted into USD for reporting purposes. The local currency usually appreciates or depreciates against the USD over the lifetime of the project. This produces a currency difference. These are effectively paper or book gains or losses. Gains of this type must not be paid over to local donors, because they are paper gains and are not actual cash. Currency gains of this type are not to be confused with unspent balances. Unspent balances of local currency must be returned to the donor.

- ii. This type of currency gain or loss must be retained within the books of LDS. It should be accumulated in a Reserve for Exchange Gains and Losses.
- iii. All project reports to Donors for project agreements in local currency must show both the local currency and USD.

12.4 CONVERTING TO LOCAL CURRENCY

All conversions into local currency must be transacted in accordance with the country's Central Bank or other government regulations. Any exchange of USD (or other currency) into local currency that is not transacted via the established banking system must be approved by the Finance & Administration Coordinator.

13 RESERVES

- i. LDS is encouraged to build up the levels of their reserves. Well managed reserves that are maintained at a reasonable level will generally be accepted by donors.
- ii. LDS must be able to scrupulously prove that the organisation owns the reserves and that they are not donor funds. In order for LDS to hold reserves that can be justified and audited the following principles and policies apply.
- iii. Principles for the establishment of reserves are as follows:
 - a) Each reserve must have a specific, clearly defined purpose and policy.
 - b) The policy must explain the following:
 - The need for the reserve.
 - How the reserve will be built up, i.e. how income credited to the reserves is calculated (such as sales of assets, charges of assets to projects, etc.) and where it is charged.
 - What expenditure can be debited to the reserve (i.e expenditure that is allowable and not allowable).
 - and who can authorise such expenditure.
 - Any special considerations concerning the form in which the funds will be held, e.g. the requirement for a separate bank account.
 - How implementation of the policy will be monitored and reviewed.
 - c) The policy should be formally approved in writing by the management of LDS.
 - d) On the basis of the approved policy, the LDS management must obtain an LDS Board resolution to set up each reserve account before starting to operate the reserve.
 - e) For each transaction that depletes a reserve, approval must be given by the LDS Director to the Finance & Administration Coordinator.
 - f) At the end of each year, LDS management should review the balance held in the reserve to assess whether it is adequate for the purposes for which the reserve was established.
 - g) The external auditors should review reserve balances for reasonableness and should ensure that the entries to reserve accounts are in line with the approved policy. This should be stated as part of the external auditors' terms of reference for year end audit.

- h) The establishment of reserves must be in accordance with local accounting and government regulations.
- i) Reserves cannot be used to cover project deficits, unbudgeted expenditure or any other shortfalls.
- j) If for any reason LDS wishes to use a reserve for a purpose other than is laid out in the policy for the reserve, written approval must be obtained from LDS Director.
- k) The number of reserves held by LDS should be kept to a minimum.

13.2 SPECIFIC RESERVES

The following are reserves that have been established by LDS.

13.2.1 RESERVE FOR VEHICLE REPLACEMENT

Donors are increasingly reluctant to fund the purchase of vehicles - even in emergency situations. For this reason Reserves for vehicle replacements are important for LDS.

13.2.1.2 Rules for Operating a Reserve for Vehicle Replacement

- i. Income for this reserve can be derived from the following types of sources:
 - Sales of old vehicles - when an old motor vehicle is sold, it is not usually possible to credit the income to the project to which the cost of the vehicle was originally charged because the project has been completed and closed. In such cases, the income can be credited to the vehicle replacement reserve. However, care should be taken to ensure that, where necessary, approval for the sale of the asset and the proposed use of the proceeds is obtained from the donor or donors who funded the original project.
 - Sales of vehicles that were purchased from the vehicle replacement reserve.
 - Vehicle hire charges to projects after setting off the maintenance costs for the vehicle
- ii. The annual hire charge per vehicle can be arrived at by using the kilometre rate provided by the Automobile Association of Zimbabwe (AA Zimbabwe). This rate can be accessed from the AA Zimbabwe website. The rates can also be used
 - a) for claiming mileage from LDS when one has used their own vehicle on Organisation's business.
 - b) For calculating the cost of running your vehicle depending on the cylinder capacity, license, insurance, depreciation value and fuel.
- iii. The Finance and Administration Coordinator will get the kilometre rate from the website and Director will approve.
- The following types of expenditure are allowable charges against the reserve:
 - Replacement of worn out vehicles.
 - Purchase of new vehicles, including all costs associated with getting the vehicle to its place of operation in working condition such as customs duties, delivery charges, and installation costs.
- All charges to the reserve must be approved by the LDS Director and FAC.
- The establishment of the reserve must be in accordance with local accounting and government regulations.
- At the end of each year, management should review the balance held in the reserve to assess whether it is adequate for the purposes for which the reserve was established.
- The balance held in the reserve should be reasonable and should not be excessively high or

- imprudently low. Normally this would be the value of the most expensive vehicle in LDS.
- The external auditors should also review the balance held in the reserve for reasonableness and should ensure that the entries to the reserve account is in line with the approved policy.
- If for any reason management wants to use the reserve for other than the purpose laid out in this policy, a valid reason must be presented to, and approved in writing by, LDS Director.

13.2.2 RESERVE FOR EXCHANGE GAINS AND LOSSES

- i. Inevitably, when dealing with multi-currency accounting there will be exchange gains and losses. Some donors will require that exchange gains relating to their grant are refunded to them. Some donors will not accept any obligation to pay for their share of an exchange losses. It is therefore prudent to establish a reserve to protect the organisation against future exchange losses.
- ii. Income for this reserve can be derived only from gains on projects that have been signed in local currency. The gains occur because, although the income is received in local currency and expenditure is transacted in local currency, LDS accounts are prepared in USD which will fluctuate in relation to the local currency. Such gains and losses are only book entries. The balance in this reserve can be used to cover future exchange losses that have been generated by the same type of transactions.
- iii. Exchange gains when converting income received in USD or other hard currency into local currency, and which are not required to be recorded in the projects, should be treated as income for core costs

13.2.3 RESERVE FOR NON PROJECT INCOME

Income for this reserve can be derived from direct donations and income from recoveries and rentals. This income should be treated as income for core costs and the FAC & LDS director can approve where it can utilised under core costs.

14. FIXED ASSETS

14.1 DEFINITION

Fixed asset are commonly defined as an item with a useful economic life of more than one year.

For LDS country programmes the definition has been amended to “A fixed asset is an item with a useful economic life of more than one year with an acquisition cost greater than USD 500 or the equivalent amount in another currency”.

Nevertheless, the management of LDS programme has the option of including assets in its books that cost less than the equivalent of USD 500.

Typical examples are motor vehicles, computer equipment, and furniture for offices and staff residences.

14.2 ACCOUNTING TREATMENT

All fixed assets in the possession of the LDS must be evaluated to determine their accounting treatment.

For all fixed assets bought by project funds, the LDS policy is to fully expense the purchase in the year of acquisition.

This approach is common among NGOs for reasons that are generally well understood and accepted, and fit into two broad categories:

- The short-term life of many projects
- The difficult working conditions on the ground in many project areas where assets wear out very quickly. For instance, bad roads quickly damage cars, unreliable power supplies shorten the working life of all electrical equipment - especially computers, and working in war zones makes theft and destruction of assets a much greater risk.

All assets property and equipment acquired through payment or received as donations shall be recorded in the asset register. The Finance & Administration Officer is responsible for recording and updating the asset register regularly.

14.4 FIXED ASSET REGISTER

A Fixed Asset Register must be maintained by Finance and Administration Coordinator. This is in addition to the normal accounting records relating to the purchase and sale transactions.

A computerised Fixed Asset Register must be used.

14.5 ANNUAL PHYSICAL INVENTORY

The Fixed Asset Register must be completely checked by means of a physical inventory of all assets at least twice a year. One of these checks will be at year end. At year end the physical verification checks will be attended by the external auditors.

LDS in addition to the mandatory six-month requirement, must perform physical inspection quarterly checks during the year.

14.6 LAND AND BUILDINGS

- i. Prior to finalizing the **purchase** of any land or buildings, the ELCZ Church Council as the Supervisory Board of the LDS must be consulted. The LDS Board must provide a resolution to approve of the purchase of land and buildings.
- ii. **Title** for land and buildings purchased by LDS will normally be in the name of LDS. If this is not possible, title could be in the name of ELCZ.
- iii. The ELCZ Church Council as the Supervisory Board for the LDS must be consulted prior to the **sale** of any land or buildings. The LDS Board provides an approval of the sale of land and buildings by way of a Board resolution.

14.7 DISPOSAL OF FIXED ASSETS

- i. Sales or transfers of fixed assets during the operation of LDS must be done in a transparent manner. Matters that must be taken into account when disposing of an asset are as follows:
 - a. National and local government regulations
 - b. Donor requirements. Restrictions may have been placed on the disposal of assets in the grant agreement with the donor. .
 - c. Agreements with local partners.
- ii. A list of items which are proposed to be disposed of is to be sent along with the reason for the sale to the LDS Director with a copy to the Finance & Administration Coordinator. The list should include an estimate of the current value of each item and whether the item is intended for sale or whether it is to be scrapped.
- iii. The LDS Director and Finance & Administration Coordinator will scrutinize the list and finalise the tender. The LDS Board approves the sale of major items. On approval by the LDS Board, an order for the disposal of assets will be issued by the LDS Director. A tender notice with a list of the items to be disposed of will be advertised to the general public asking them to send their tender price separately for each item in a sealed envelope to the person who issued the tender notice on behalf of LDS. Where items to be disposed of are many LDS management may decide to engage a registered and credible auctioneer. The auctioneer will be selected through a competitive process to supply services as per the LDS procurement procedure. The closing date for submission of the offers by the prospective buyers should be fixed after providing sufficient time for inspection of items by them.
- iv. Assets should never be offered for sale to staff members only. All staff members should have an equal opportunity to submit a tender for an asset.
- v. The above procedures are not applicable for the disposal of items of USD 1000 and below value, except for motor vehicles or motor cycles. The sales or disposal of minor items will be at the discretion of the LDS Director.
- vi. If applicable, the donor must be contacted prior to the sale of the asset and requested to approve the sale. Details should be provided to the donor as to how the proceeds will be used. In some cases the proceeds of the sale may have to be refunded to the donor.
- vii. If the sale of the asset is not subject to donor approval, the income generated by the sale should be credited to the project(s) to which the cost of the asset was originally charged. If this is not possible, e.g., because the projects have been closed, the proceeds should be credited either to the Reserve for Asset Replacement.
- viii. Where applicable, such as for sale of motor vehicles, the legal title of an asset that has been sold must be changed from LDS to the new owner at the time of sale. The insurance company must be advised in writing.
- ix. /
- x. Donations of assets to local partner organisations can be approved by the LDS Director in consultation with the LDS Board.
- xi. The Fixed Asset Register must be updated with details of all disposals of assets.

14.8 HIRING OF LDS ASSETS TO PROJECTS

- i. Assets can be hired out by one project to another. This also applies to the assets that have been purchased from the Asset Replacement Reserve. The most common assets to be hired out are vehicles. A kilometre rate should be calculated, and the rate should include depreciation.
- ii. The hire charge can be treated as income in the project which originally purchased the asset, or the charge can be credited to the Asset Replacement Reserve. The procedure for each asset should be decided upon by the management team, recorded in writing, signed, and placed in the file for the asset. It is advisable to bring it to the notice of the external auditors when the audit is being carried out.

15 LDS PROCUREMENT POLICY

There is a separate LDS Procurement Policy manual which covers all aspects of the procurement process in full detail.

15.1 DAY TO DAY OPERATION

- i. The overall objective of procurement is to provide the appropriate quality and quantity of goods and services to support projects at the right time, price, and place and to ensure that the procedures are in accordance with best commercial practices.
- ii. In achieving this objective, it is important that authority delegated by the Director to staff is clearly defined to enable them to act speedily in obtaining the goods and services needed at the right time and in such a way as to obtain the best value for money in a fair and transparent manner.

15.2 AUTHORISATION LIMITS

- i. At a very simplified level the minimum standards as laid out in the LDS Procurement Policy are as follows:
- ii. There are no special requirements for single purchases below USD 500. Under no circumstances can this threshold be abused by breaking larger transactions down into smaller instalments. LDS can review this limit from time to time as circumstances change..
- iii. Expenditure above USD 500 must be subject to three competitive quotations. The quotations should be compared in a tabular format. In general, it is expected that the cheapest quotation will be accepted and reasons for non-acceptance of the cheapest quote should be documented. Acceptance of higher quotes can be justified in a variety of circumstances such as value for money, quality of the product or service, lead-times, supplier history, etc. Documentation relating to quotations must be kept for audit and donor purposes.

- iv. For expenditure above USD 5,000, as well as a minimum of three quotations, the final decision on supplier selection should be made by a Procurement Committee.
- v. For items of expenditure in excess of USD 10,000, adverts inviting bids should be placed in the national press.
- vi. Signed minutes of the procurement committee must always be available for purchases over 500 USD

15.2.1 Procedures for Authorisation Limits

General

- i. The following procedures define the authority limits for LDS staff who can authorise expenditure on behalf of LDS by raising procurement requests.
- ii. The authorised person must ensure that there is a sufficient allocation in the budget to cover the expense prior to authorising it.

LDS Budget Authorisation Responsibility

Budget Holder Name	Responsibility of authorisation (Budget Line)	Amount USD
Director	All budget Lines	No limit
Program Coordinator	All project related activities	Up to 10 000 USD
Finance & Administration Coordinator	All administration related materials/items at Head Office	Up to 10 000 USD
Thematic Advisors	All project activity items relating to the thematic sector	Up to 3000 USD
Project Officers	Project related materials	to 500 USD

Note:

- ✓ Staff recruitment can only be approved by the LDS Director
- ✓ A Budget Holder is responsible for approving Purchase Requisitions made on behalf of LDS.
- ✓ A Budget Holder is responsible for ensuring availability of funds in the budget line for items requested.
- ✓ A Budget Holder is responsible for the technical specifications of the items required.

- iii. The Finance and Administration Coordinator or Programs Coordinator must countersign every purchase order.
- iv. It is the responsibility of the Finance & Administration Coordinator or Project Coordinator to ensure that the proper authorisation procedures have been followed and that the person approving the request has the authority to do so.

Payment

- i. All bank transfers require two authorised signatures.
- ii. The Finance & Administration Coordinator (or delegate) should be the first to sign every Bank Transfer and should not sign any payment until all supporting documents are attached to the invoice and has been properly authorised.
- iii. Dollar payments should only be made against invoices denominated in dollars.
- iv. All transactions greater than USD 500 must be paid by Bank Transfer or Transfer forms or through internet banking.

Authorised Signatories & Authorisation Limits

Position	Approval of Budgets	Sign Agreements or Contracts
1. Country Director	No Limit	No Limit
2. Program Coordinator	Review / comments	In the absence of Country Director and upon delegation.
3. F & A Coordinator	Review / comments	In the absence of Program Coordinator and Country Director and upon delegation
4. Thematic Advisers	Propose to Program Coordinator	Maximum USD 500 only upon delegation. More than USD 500 should seek the approval of CD or FAC or the Country Director's designate.

- a. At the Field level, the Thematic Advisers can approve payment vouchers as long as the expenditure items are below USD 500 and if and when the expenditure items have prior approval from the program coordinator and finance in Harare.

Documentation Requirements

Documentation relating to the procurement function, such as supply requisition notes, competitive quotes, minutes of Procurement Committee meetings, etc., is an integral part of the audit trail. As such, it is subject to the procedures for retention and storage of documents. See list below

15.3 DONOR REQUIREMENTS

The LDS Procurement Policy is designed to be as demanding, if not more demanding, than most donor requirements. However, where donor procedures are more stringent donor procurement requirements take precedence over the LDS Procurement Policy when implementing the grant of the particular donor.

15.4 INTERNATIONAL PROCUREMENT

International purchases are to be made only when local goods, materials and services are not available on reasonable terms and are not of good quality. Competitiveness in terms of price, quality, delivery time and service shall apply to all procurement decisions.

16. INSURANCE

Adequate insurance coverage should be maintained for the value of the stored items. However, it is recognised in certain emergency situations it may not be possible to obtain such cover or that the cost may be too great.

17 BANKS

17.1 SELECTING BANKS

- i. Banks in which LDS hold funds should be financially sound and wherever possible, a branch of an international bank. Other factors to be considered when selecting a bank are:
 - a) Reputation and the history of the bank. Is it a bank that has been associated with bad practises e.g. money laundering before?
 - b) What is the shareholding structure of the bank?
 - c) Is the bank listed on the Stock Exchange and what is their market capitalization?
 - d) Reliability & stability of the bank
 - e) Reference from other organisation who have experience with the bank
 - f) What is the profile of clients of this bank? What are the types of customers who use this bank?
 - g) Did the bank meet the minimum balance requirement by the Reserve Bank?
 - h) How wide is their branch network?
 - i) Online banking features and security of online banking
- ii. LDS maintains two bank accounts offshore (one USD and one Euro) in order to minimise risk by maintaining in-country cash holdings at a reasonable level.
- iii. A list of all bank accounts maintained by LDS must be submitted to the LDS Board by 30th March for approval

17.2 OPENING BANK ACCOUNTS

- i. New bank accounts can be opened at the discretion of the LDS Director. However there should be a resolution by the LDS board prior or after.
- ii. All bank accounts should be in the name of the “Lutheran Development Services” and if needed the project name comes in as suffix.
- iii. On opening a bank account, a clear written agreement should be countersigned by the bank.

17.3 BANK MANDATES

17.3.1 Authorised Signatories

- i. The bank accounts of LDS should have the following staff as signatories:
 - Country Director
 - Finance & Administration Coordinator
 - Programs Coordinator
- ii. The alternate signatories as maybe required and dictated by circumstances for operations to continue are:
 - Thematic Adviser
 - Project Finance Officer – only for initiating payments
- iii. Board members are normally not signatories to an organization's bank account for the day-to-day operations. However, in the case of incapacitation of LDS Senior Managers and as and when it is absolutely necessary the following Board officials shall be alternative signatories to those mentioned for above
 - LDS Board Chair
 - LDS Board Chair person of Finance & Audit Committee
 - LDS Board Chairperson of the Human Resources Committee
- iv. Note that the Board members are included here as emergency backup. They will only sign in cases of extreme emergency when all members of LDS management are not available. They are not involved in the day to day running of the organisation.
- v. The above list is subject to the laws of the country, donor and at the discretion of the LDS Director.

17.4.2 Signing Authorities

- i. **Sole signatory** – No one must have sole signatory authority on the bank accounts in LDS.
- ii. **Joint signatory** – all other signatories must have joint signatory authority. All, transfers, internet banking and other payment instructions must be signed by at least two authorised signatories.

Authorised Signatories & Authorisation Limits

Position	Sign Bank transfer and/or Cash payments

1. Country Director	No Limit. All payments above 10 000 USD must have the Director's signature
2. Program Coordinator	Any amount below 10 000 USD with another signatory. In the absence of FAC
3. F & A Coordinator	With the Country Director or with Program Coordinator. With Program Coordinator if the amount is less than 10 000USD.
4. Thematic Advisers	At the project level, with the other designated senior staff as signatories.

17.5 CURRENCY

To reduce the risk of devaluation, local currency bank balances should be maintained at the minimum level required without unduly restricting operations. This will usually be defined in terms of the number of weeks that expenditure is to be made. For example, the aim might be to hold local currency equivalent to two weeks of normal expenditure in the currency, with the rest of local funds held in hard currency.

17.6 INTEREST EARNINGS

Interest earned on bank accounts should be allocated to the Programme Operations except where specified by a donor. Interest should be credited to Programme Operations. It will then be indirectly credited to individual projects by means of a reduced allocation of Programme Operations costs.

17.7 INTERNET BANKING

- i. This involves payment to suppliers through access to LDS bank account online. After all the documentation required for payment has been prepared access the internet bank account is through levels:
 - a) Level 1 - is for initiators. These are normally the finance staff (Financial Accountant and finance officers).
 - b) Level 2 – is for first level authorisers. This is the Program Coordinator and Finance and Administration Coordinator or other delegated authority.
 - c) Level 3 – is for the second level authorizer. This is for the LDS Executive Director or the delegate.

- ii. There is an increase of fraud through online banking (cybercrime). Criminals use a number of techniques to gain access to Banking information and steal funds. Signatories should therefore be on the watch and advised (among other measures) to:
 - a) never share passwords
 - b) change passwords often if ones feels they have used the password for too long and feel insecure
 - c) Never allow somebody to use your computer to authorise transactions.
 - d) never to use internet cafes to do transactions but use your own designated machine where you have control
- iii. Management must familiarise themselves with information on global incidents covering cybercrime activity and how to protect the organisations. Banks normally are free to give such information.

17.8 Handling of Funds Transfer Forms

- i. Transfer forms are used to pay both from the Nostro FCA & RTGS bank accounts. The forms are printed by the Accountant and details of the beneficiary completed. These are completed in triplicate.
- ii. The forms can be delivered either physically or by a scanned copy sent to the Bank by email.
 - If sent by email the Bank will acknowledge receipt of the forms by same.
 - When physically delivered the bank will stamp all the copies as proof of receipt and then give a copy to the deliverer as LDS file copy.
- iii. Two signatures are required on the transfer forms.
- iv. Pre-signing of blank forms is not allowed under any circumstances. If a pre-signed forms is mislaid or stolen, there is great potential for financial loss. This means that the payee and amount should always be completed before the forms are signed.
- v. The forms must only be signed after satisfaction of all the supporting documentation is in place and verified by the authorised signatories.

17.8.1 Other Non-Cash Payments

- i. Some staffs are issued with ATM/Debit cards to facilitate payment of LDS expenditure in the field. The card will have funds amounting to a maximum 500 USD. Such payments include road toll fee payments, tyre repairs, airtime etc.
- ii. When a staff receives such an amount in the card they will submit an expense form with full supporting documentation to the Finance Assistants as a liquidation of the float that they received. The Finance staff will verify this expenditure against the bank statement for this account.
- iii. The card must be topped up with the amount of money spent.

17.9 BANK RECONCILIATIONS

Bank statements must be reconciled to the **cash book & general ledger** every month for all bank accounts. This is a mandatory procedure.

17.10 BANK OVERDRAFT OR LOAN

LDS policy is that there should be absolutely no overdraft facilities or loan accounts.

17.11 BANK FILE

The finance office must maintain a documentation file for each bank account. As a minimum, this file should contain:

- 1) Bank Agreement
- 2) Date account was opened
- 3) Authorised Signatory List
- 4) All account related correspondence with the bank, excluding regular transactions
- 5) For closed accounts, date closed and a copy of the bank confirmation of closing

17.12 ANNUAL SUMMARY OF BANK ACCOUNTS TO BE SUBMITTED FOR AUDIT

Details of all bank accounts held and operated by LDS during the financial year must be submitted for audit at the end of the year.

18 CASH HANDLING POLICY

Cash is the most liquid of all the assets, and therefore exposes the organisation and its staff to particular risks. It is the most likely asset to be misappropriated, and handling large amounts of cash on a regular basis exposes staff to the risk of theft and personal injury. For these reasons cash expenditure should be kept to the minimum amount possible. Wherever possible, payments should be made by cheque or bank transfer. As well as addressing the security issues, cheques provide a legal proof of payment and a record of what has been paid to whom and when.

18.1 IMPREST SYSTEM FOR CASH FLOATS AND PETTY CASH

The cash float and petty cash system should be operated on an imprest basis. This means that when the cash reaches a low level it should be topped up with the amount that has been spent. For instance, if the float is USD 500 and USD 450 has been paid out, the balance in the cash box will be USD 50. The amount that is to be topped up is USD 450, which will bring the float back to the authorised level of USD 500.

18.2 Procedures for Cash Floats

- i. The cash float should be held in a cash box.
- ii. Day to day petty cash expenditure may be made from a cash box.
- iii. During normal working hours the cash box may be held in a locked drawer. At the close of business the cash box must be locked away in the safe.
- iv. The amount for each cash float, in headquarters and project offices, must be USD 500 approved in writing by the Finance & Administration Coordinator.
- v. If, in exceptional circumstances, it is necessary to withdraw an amount of cash in excess of the abovementioned limit, prior written approval must be obtained from the Finance & Administration Coordinator or the LDS Director.

- vi. Payments above USD 300 should be made by Bank Transfer. If in exceptional circumstances it is necessary to pay an item in excess of this amount by cash, prior written approval must be obtained from the Finance & Administrator Coordinator.
- vii. The balance on hand for all cash floats must be banked on the last working day at the end of the year. The cash float will be withdrawn from the bank on the first working day in the New Year.

18.3 CASH PAYMENTS

18.3.1. Procedures for Cash Payments

- i. First, a payment requisition on the official Payment Requisition form must be submitted. The form must be completed by the person requesting the payment and submitted to the authorised person for approval.
- ii. The person requesting the payment must ensure that all required supporting documentation is attached to the form.
- iii. The form and all required supporting documents should be checked by a member of the finance staff for arithmetical accuracy, for budget cover, and for compliance with LDS policies. If the details are correct, the finance staff member will then sign the form and prepare a Payment Voucher for authorisation. The Payment Voucher is then authorised by the appointed personnel and sent to the Cashier for payment.
- iv. The Cashier should make the payment and obtain a receipt from the payee. If the payee is a company, this should be on an official receipt form from the company. If the payee is an individual, their signature on the payment voucher is sufficient evidence of receipt.
- v. All transactions must be entered immediately in the cash book by the Cashier.

18.4 CASH RECEIPTS

- i. Cash receipts do not normally represent a significant number of transactions and in most cases can be dealt with by the Cashier and acknowledged by means of official LDS pre-numbered receipt vouchers.
- ii. There may be situations, e.g. micro-finance projects where a particular office receives cash and other payments on a more regular or substantial basis. In such cases, the Finance & Administration Coordinator, in conjunction with the Programme Coordinator, should review the cash handling procedures more thoroughly in order to ensure that appropriate controls are in place.

18.4.1. Procedures for Cash Receipts

- i. All cash received must be evidenced by an official receipt form.
- ii. The form must be completed by the Cashier including details of the budget line to be credited.
- iii. The Cashier must also ensure that appropriate supporting documentation is attached to the form to explain the nature of the receipt.
- iv. The Cashier should issue the payer with the receipt form.
- v. All transactions must be entered immediately in the cash book by the Cashier.

18.5 CASH COUNTS

The Cashier must maintain a cash book for every cash float. Each cash book should be updated at least once a day.

18.6 CASH LIMITS

- i. For security purposes, cash held at LDS offices at any one time should be kept to a minimum. This includes cash floats, petty cash, cash receipts, cash advances, and cash receipts.
- ii. A written limit for total cash to be held in each project office should be set by the LDS Director and the FAC. Maximum amounts should never be more than the amount of cash typically expected to be used in a month. The cash limits for the different offices will be determined and approved by the FAC from time to time as circumstances demand.

18.7 SECURITY

i. Safes

- a) All project offices must have at least one fireproof safe.
- b) Where possible, the safe should be cemented to the ground.
- c) Cheque books, cash and other important documents must be kept in the safe.

ii. Keys – Safe keys

- a) Two copies of the keys to each safe should exist.
- b) For the main safe at the country headquarters, one copy must be kept in a secure location off site, e.g. in a bank safe deposit box, while the other must be kept by either the FAC or a senior manager delegated by the FAC, with the agreement of the Director.
- c) For project office safes, the LDS Director and Finance & Administrator Coordinator should delegate key-holding responsibility to a senior staff member.

iii. Keys – Cash box keys

- a) The key for the cash box must be held by the Cashier only. No other staff should hold a key to a cash box.
- b) The cash box must be placed in the safe at the end of every day.

One person should not hold both the key to the cash box and the key to the safe.

Written procedures should be in place for key-holding responsibilities for the periods when the key-holder is on leave.

18.8 CASH FOR REMOTE PROJECTS

- i. LDS sometimes operate in remote areas where there is no banking system. The only alternative is to hold large sums of cash in order to pay for physical inputs, payroll and other services. Transportation of the cash to the project site is a very real risk.
- ii. Written procedures should be put into place for operating with cash in remote project areas. Planning the procedures should be the responsibility of the LDS Director, Finance & Administration Coordinator and Programme Coordinator. The safety of staff and the

security of the cash must both be included in the procedures. The procedures must then be submitted to the Finance & Administration Coordinator for approval.

19 PAYMENTS

- i. LDS has a Payment Voucher form which serves to record the necessary details of the payment that has been made. The form confirms that the appropriate checks have been carried out, that proper authorisation has been obtained and includes appropriate information to post the transaction to the accounting system.
- ii. Payment vouchers should be pre-numbered. The numbers should be stamped on the voucher with a numbering stamp. The numbering stamp must be kept in a secure place and only accessible to authorised staff.

19.1 Payment Voucher

As a minimum the Payment Voucher form contains the following:

- a) Name of payee
- b) Details of bank account or cash account from which the payment was made
- c) Currency and amount of payment
- d) Date of payment
- e) General Ledger code to which the expense should be charged
- f) Description of the expense
- g) Signature of the person who prepared the voucher
- h) Signature of the person or persons who authorised the voucher
- i) Signature of the staff who made the payment
- j) Signature of the person who receive it
- k) Signature of the person who posted it to Accpac

19.2 Processing the Payment Required Supporting Documentation

(Attached to Payment Voucher)

i. Salaries

- Salary sheet
- Instruction letter to bank (if payment through bank)
- Signature of payee (if paid in cash)
- Letter of appointment (if new staff)
- Copy of letter authorising increments or changes to salary
- Attendance Records (in file)

ii. Overtime

- Standard format with authorised signatory

iii. Travel

- Travel authorisation
- Invitation letter from host agency if applicable
- Travel order (mode of travel, no. of days, date of return, purpose, etc.)
- Used tickets
- End of mission report
- Travel expenses report with original supporting documents within five days from return
- Copy of approved leave form (if applicable)

iv. Medical Compensation

- Application form
- Doctor's prescription(copy)
- Medical bills (original)

v. Utilities (Electricity, Water, Telephone)

- Copy of registration (in file)
- Monthly bill with receipt
- Detailed statement of personal phone, fax, email
- Agreement (if on rental basis in the file)

vi. Office Supplies, Printing and Stationery, Fixed Assets

- Approved requisition with list of items
- Request for quotations
- Quotations – Minimum 1 refer to LDS manual
- Comparative analysis (tabulation of quotations)
- Minutes from the procurement committee
- Supplier registration Certificate
- Purchase order
- Delivery Note – issued by supplier and LDS staff
- Goods Received note – signed by staff who received and requester & requester
- Store Receipt
- Invoice
- Bank details
- Payment voucher
- Copy of bank transfer Form
- Receipt/proof of payment

vii. Fuel and Lubricants

- Invoices - signature of user and approval by authorised staff
- Statement
- Vehicle log book (must include all entries of fuel and lubricants and places travelled in the vehicle)

viii. Vehicle Repairs

- Repair request form
- Estimate for major repair
- Invoice (certified by user)
- Agreement, if repaired through quotations or tendering process
- In case of accidents- insurance claim with other documents (in file)
- Approval from the Director exceeding limit

ix. Training

- Approved proposal with cost estimation
- Brochure (if available)
- Agreement
- List of participants
- Request letter for payment from organiser

- Training report signed by line manager

x. Program Materials

- Approved requisition with list of materials
- Request for Quotation (RFQ)
- Quotations (Min 1 – Refer to LDS Procurement Manual)/Copy of framework agreements for prequalified suppliers
- Comparative analysis (tabulation of quotations)
- Minutes from the procurement committee
- Supplier registration Certificate
- Delivery Note – issued by supplier and LDS staff
- Purchase order
- Goods Received note – signed by staff who received and requester & requester
- Invoice
- Bank details
- Payment voucher
- Copy of bank transfer Form
- Receipt/proof of payment

xi. Consultant

- Supplies Requisition
- Terms of Reference
- Proposal submitted by different Consultants (minimum 1)-refer to LDS Procurement manual
- Minutes from tender /procurement committee
- Agreement fully signed by consultant and Director
- Copy of attendance list for participants and consultants if it was training
- Consultant's detailed report approved
- Invoice/Request letter for payment from organisation or person – certified by LDS staff that generated request for consultants
- Bank details
- Payment voucher

xii. Payments made to other organisations / local partners

- Agreement (with detail terms and conditions)
- Financial report (with detail accounting of funds)
- Narrative report on project activities
- Request letter for payment
- Approval from Representative

- a) Finance staff prepares and signs the Payment Voucher.
- b) The finance staff should check that the required supporting documentation is attached, that it is properly authorised, that the invoice is arithmetically correct and that it agrees in all respects to the Purchase Order.
- c) Finance & Administration Coordinator signs Payment Voucher to authorise payment.
- d) There may be a requirement for two signatories to authorise payment.
- e) Cashier raises the cheque or a bank transfer and stamps the invoice as paid.
- f) Authorised signatories sign the bank transfer.
- g) The authorised signatories should check that the person authorising the payment has the authority to do so.
- h) Payment is made and the payee signs the form to confirm receipt and is asked to provide an official written receipt.
- i) Finance staff updates cash book, preferably immediately and at least once a day.
- j) The Finance staff posts batches of transactions from the cash book to Accpac on a regular basis preferably daily, but at least weekly.
- k) As each transaction is posted, the Payment Voucher must be signed and dated by the person who posted it.
- l) The Finance person files the Payment Vouchers with supporting documentation.

- m) For payments by cash, exactly the same process should be followed except for the steps that relate to cheques and bank transfers.

19.2.1 Receipt Voucher

- a) Name of the person or organisation the money is received from
- b) Details of bank or cash account into which the money is received
- c) Currency and amount of receipt
- d) Date of receipt
- e) General Ledger code to which the receipt is to be credited
- f) Description of receipt
- g) Signature of the budget holder authorising the coding of the receipt
- h) Signature of the Finance staff who receives the money
- i) Signature of the person who is paying it
- j) Signature of the person who posts it to Accpac

19.2.2 Processing the Receipt

The process of recording the receipt is then as follows:

- a) Money is received.
- b) This means physical receipt of cash or cheques in the office. It also includes funds received by transfer direct to the bank.
- c) Cashier prepares and signs the Receipt Voucher.
- d) The Cashier should attach any appropriate supporting documentation. The Cashier should ensure that the correct amount has been received. This is necessary for example, if the receipt relates to a debit note or invoice previously issued by the country programme.
- e) Payer countersigns the Receipt Voucher to confirm details of receipt.
- f) Accountant signs the Receipt Voucher to authorise receipt.
- g) The authoriser should ensure that the details as entered on the Receipt Voucher, including the amount, the code and the description, are correct.
- h) Cashier updates cash book, preferably immediately and at least once a day.
- i) The accounts clerk posts batches of transactions from the cash book to Accpac on a regular basis preferably daily, and at least weekly.
- j) As each transaction is posted, the Receipt Voucher must be signed and dated by the person who did the posting.
- k) The accounts clerk files the Receipt Vouchers.

19.3 TRANSFERS BETWEEN BANK AND CASH ACCOUNTS

When making transfers between different bank accounts or from a bank account to a cash account, the FAC must decide whether it wishes to use a Transfer Control Account OR post the transfers once with postings reflected in both banks at the same time. This is at the discretion of the Finance & Administration Coordinator.

20. WORKING WITH PARTNERS/OTHER ORGANISATIONS

LDS may work with local partner NGOs or CBOs. Although implementation is done by local partners, LDS will be fully accountable to the donors for the grants. Therefore, LDS must necessarily continue to have a very “hands-on” approach for major tasks such as planning, coordination, monitoring, accounting and reporting.

20.1 ASSESSMENT OF POTENTIAL PARTNERS

In order for LDS to meet its obligations of accountability to donors, potential partners must be properly assessed. The assessment of the potential partner must not be limited to programmatic and strategic concerns but must also address:

- a) The partner’s internal control and accounting systems.
- b) The partner’s ability to provide accurate and timely financial and narrative reports.
- c) The partner’s ability to comply with all donor requirements.

20.2 WRITTEN PARTNERSHIP AGREEMENT

The final decision to enter into any partnership arrangement must be based on a written agreement. This will contain the following as annexes to the agreement:

- at least a project proposal and
- associated budget.

The proposal and budget should be closely scrutinised and negotiated in the same way that LDS submits its proposals and budgets to donors.

Every partnership arrangement that involves advancing funds to a partner must be based on a written agreement signed by the LDS director the partner. The agreement must be signed prior to the release of any funds. The actual content of the agreement will vary depending on the size and nature of the grant and the liquidation period. The project proposal and budget provided by the partner will form an integral part of the agreement.

The following list of topics outlines what must go into such an agreement.

- a) Roles, responsibilities and obligations of each party.
- b) Amount of financial support to be provided.
- c) Payment schedule for each transfer.
- d) The conditions that must be met by the partner prior to the release of each transfer of funds.
- e) Method of funds transfer.
- f) If a portion of the funding is to be withheld until after submission of a satisfactory final report and completion of any required audit, the amount to be withheld and the terms of its release.
- g) Conditions relating to the return of any unspent funds.
- h) Conditions relating to interest earnings and exchange gains and losses, if appropriate.
- i) Whether or not the partner needs to produce audited accounts and if so, whether they should relate just to use of LDS funds or to all expenditure by the partner.
- j) Whether financial reports need to be supported by individual transaction vouchers and if so whether these documents should be originals or copies.
- k) Any ineligible expenditure, for example if there are any restrictions on overhead and administration costs or capital expenditure.
- l) If the budget involves capital expenditure, who owns the assets and what will happen to them at the end of the project and partnership period.

- m) Reporting procedures and formats that the partner is required to use. In all cases these must, at a minimum, comply with LDS's own donor and back donor regulations and requirements.
- n) The type of monitoring that will be undertaken by LDS.
- o) The amount of non-monetary assistance, if any, that will be provided by LDS.
- p) A clause on anti-corruption & anti-terrorist activity.
- q) Anything else that the partner needs to comply with in order to meet donor, back donor, or LDS requirements such as procurement procedures or insurance cover for staff and equipment.

The above list is intended to act as a minimum standard.

See a Sample Partnership Agreement with Local Partners.

20.3 ACCOUNTING TREATMENT

The accounting treatment for financial support to partners should be kept simple. Refer to the following categories:

For Grants under USD 2,000

- i. In order to simplify the accounting and avoid understatement of expenses, grants of less than USD 2,000 can, at the discretion of the Finance & Administration Coordinator, be charged directly to the budget line in the project.
- ii. When the grant is directly expensed, LDS must obtain an acquittal from the partner, together with all supporting documents.

When the grant is not directly expensed, the same rules apply as for grants over USD 2,000.

For Grants above USD 2,000

- i. When funds are advanced to the partner they should be treated as a receivable until the advance is acquitted. For large amounts, the acquittal is in the form of an income and expenditure report, and a narrative report. The reports should be accompanied by supporting documents. Upon receiving the reports and supporting documents, they are checked and duly authorised by both the Programs Coordinator and Finance & Administration Coordinator. A journal entry is then prepared in order to credit the receivable account and to debit the budget lines in the project.
- ii. The budget lines in the reports from the partner should be more detailed than the budget lines that are in Accpac.

20.4 MINIMUM CRITERIA FOR LOCAL PARTNER SELECTION

20.4.1. Selection criteria

- i. Funding up to USD 5,000 - can be decided by management committee.
- ii. Funding above USD 5,000 to USD 10,000 – partner should meet minimum criteria - to be decided by management committee.
- iii. Funding above USD 10,000 – proposal to be published in the local newspaper for proposal - to be decided by management committee in a competitive manner.

20.4.2. Strictly applicable for funding of more than USD 5,000

- i. Should be registered with the government as a non-profit making organisation.
- ii. Should have own constitution and mandate.
- iii. Should have an established office with a minimum team of staff.
- iv. Should have bank accounts in the name of the organisation.
- v. Should have separate staff to handle finance administrative issues and procedures.
- vi. Should have its own administrative and procurement guidelines.
- vii. Should have a regular annual audit from a qualified firm of external accountants.

AGREEMENT BETWEEN LDS and Rural Development Cooperative

Rural Development Cooperative (RDC) having its head office in **xxxxx**, registration no. **xxxxx**, hereinafter referred to as the **“Implementing Partner”**

AND

The Lutheran Development Services, hereinafter referred to as the **“Support Partner”**

AGREE TO THE FOLLOWING:

Article 1: General

1.1 The following project shall be implemented by the Implementing Partner following the agreement made herewith:

(name of the project)

- 1.2 This agreement sets forth the conditions of the grant to the Implementing Partner.
- 1.3 The Implementing Partner shall submit to the Support Partner copies of its Constitution, Bylaws, names of governing board and executives, strategic plan and objectives, audit report, registration certificate, and policies and procedures manuals.
- 1.4 The Work Plan and budget submitted by the Implementing Partner as part of its proposal for the period 1 January 2xxx to 31 December 2xxx shall be an integral part of this agreement.
- 1.5 The activities shall be executed by the Implementing Partner in accordance with the aforesaid document in 1.4 above within the stipulated period.

Article 2: Implementation Period and Location

- 2.1 The duration of this agreement shall be for the period 1 January 2xxx to 31 December 2xxx.
- 2.2 The project will be implemented in (name and location of the area or region).

Article 3: Amendments

- 3.1 Any amendments to this agreement must be signed by both parties. Any variation to budget line items greater than twenty percent (15%) must receive prior written approval from the Support Partner.

Article 4: Amount and Payment of the Grant

- 4.1 The Support Partner shall provide a grant not exceeding USD 50,000.
- 4.2 The grant shall be paid by bank transfer in the following instalments:

USD 20,000 upon the signing of this agreement;

USD 20,000 upon the receipt and approval of the financial and narrative report for the six month period ended 30 June 2xxx; and

USD 10,000 upon the receipt and approval of the financial and narrative report for the nine month period ended 30 September 2xxx.

- 4.3 The grant by the Support Partner shall be in accordance with the approved Work Plan and budget.
- 4.4 The grant includes core costs of the Implementing Partner, which shall not exceed 15% of direct project costs.
- 4.5 The grant from the Support Partner shall be subject to the availability of funds, satisfactory progress being made by the Implementing Partner, and timely submission of reports.
- 4.6 As part of the monthly reports, the Implementing Partner shall prepare a monthly cash flow budget for the next three months.
- 4.7 The grant shall be disbursed in (name of local currency) through bank transfer direct to the account of the Implementing Partner.
- 4.8 The Implementing Partner shall return any unspent funds to the Support Partner within two months after the closure of the project.
- 4.9 The Support Partner shall not be held responsible for any cost in excess of the above mentioned grant.
- 4.10 Payment of all fees and taxes applicable as per the law of the Government of xxxx shall be the sole responsibility of the Implementing Partner.

Article 5: Administration

- 5.1 The Implementing Partner shall keep separate books and accounts for the funds provided by the Support Partner.
- 5.2 All documentation relating to the grant shall be retained for seven years after the completion of the grant.
- 5.3 The Implementing Partner shall allow access by the Support Partner to all documentation and financial records relating to the grant.
- 5.4 The Implementing Partner shall allow access by the Support Partner's internal and external auditors to all documentation and financial records relating to the grant
- 5.5 All vouchers and supporting documents must be stamped "LDS- xxxx Programme Funded" for all expenditure related to the grant from the Support Partner.
- 5.6 All expenditure of funds provided under this agreement is subject to the LDS Procurement Policy.
- 5.7 The Implementing Partner shall submit a list of staff salaries and benefits to the Support Partner.
- 5.8 The Implementing Partner shall request approval from the Support Partner before making any changes to staff remuneration.
- 5.9 The implementing partner shall maintain a gender and ethnicity balance in its recruitment of staff for the project.
- 5.10 The Implementing Partner shall adhere to the LDS Code of Conduct, the LDS Sustainable Development Guidelines, and policies relating to Gender, Advocacy and HIV/AIDS.

5.11 No offer, payment, consideration or benefit of any kind, which could be regarded as an illegal or corrupt practice, shall be made, promised, sought or accepted - directly or indirectly - as an inducement or reward in relation to activities funded under this agreement, including tendering, award or execution of contracts. Any such practice will be grounds for the immediate cancellation of this agreement and for such additional action, civil or criminal, as may be appropriate.

Article 6: Ownership of Capital Equipment

6.1 Any individual asset procured under this agreement for less than USD 1,000 will automatically remain with the Implementing Partner.

6.2 The Implementing Partner may request in writing to the Support Partner the right to retain any individual asset that was procured under this agreement for more than USD 1,000.

Article 7: Reporting

7.1 The Implementing Partner shall submit a monthly financial report in the format provided by the Support Partner. The deadline for the monthly financial report is the 20th of the following month.

7.2 The Implementing Partner shall submit quarterly narrative and monitoring reports. The deadline for the quarterly reports shall be 20 April, 20 July and 20 October.

7.3 The Implementing Partner shall submit a final financial report and a final monitoring and narrative report by 15 March 2xxx.

7.4 The Implementing Partner shall undergo an annual audit of its activities by an appropriately qualified firm of external auditors. The audit report will be submitted to the Support Partner by 15 April 2xxx.

Article 8: Monitoring and Evaluation

8.1 The Implementing Partner shall assess the progress of activities through frequent monitoring visits and close supervision.

8.2 The Support Partner shall visit the project from time to time. All visits by the Support Partner will be arranged with the Implementing Partner.

Article 9: Cancellation of the Agreement

9.1 The Support Partner reserves the right, after one month's prior written notice and consultation with the Implementing Partner, to reduce the amount of the grant for the project if the Support Partner does not receive sufficient funding from its donors.

9.2 The Support Partner reserves the right to cancel the agreement if the Implementing Partner does not meet the terms of this agreement.

9.3 The Support Partner reserves the right to cancel the agreement if a state of insecurity arises in the project area that may prevent the implementation of the project. The decision to cancel the agreement on these grounds will be taken by the Support Partner in full consultation and agreement with the Implementing Partner.

Article 10: Final Provisions

10.1 Both parties will uphold the terms of this agreement.

- 10.2 Both parties will make every effort to settle disputes amicably. Ultimately, the decision of the Support Partner will be final.
- 10.3 All matters relating to the project and its implementation shall fall under the jurisdiction of the prevailing laws of government of xxxxx.
- 10.4 The Implementing Partner shall agree to undertake all necessary action to guarantee the legal immunity of the Support Partner.
- 10.5 The Implementing Partner shall take the lead in resolving any legal disputes with third parties that may arise in the course of implementation.

This agreement is signed by

For LDS

Name:

Title:

Date:

Signature:

For the Implementing Partner

Name:

Title:

Date:

Signature:

21. ADVANCES

Advances are an essential part of doing business for LDS.

Advances can be broken down into two categories:

- **Personal Advance** - paid to a staff member for non-LDS expenses, e.g., a salary advance.
- **Work Advance** - paid to a staff member to cover LDS expenses, e.g., when a staff member travels on LDS business.

21.1 PERSONAL ADVANCE

21.1.2 National Staff

The rules concerning salary advances to national staff should be contained in the LDS HR Policy Repayments of the salary advance can be made by salary deduction. All deductions from salaries must be in writing and authorised by the staff member.

21.1.3 Limits to Personal Advances

- i. Personal advances should not exceed the equivalent of one and half month's salary and should not be outstanding for longer than three months. Once this limit is reached, no further cash advances should be made until full repayment of the outstanding balance

is received. The advance is not meant to be a permanent, standing loan and should be repaid on a regular basis.

- ii. The LDS Director approves all salary advances and is responsible for monitoring the level of personal advances to ensure that they are never more than the equivalent of one and half's month's salary.
- iii. All personal advances must be zero as at 31 December.

21.2 WORK ADVANCES

- i. Work advances are those paid to the staff member to cover their expenses while they are travelling on LDS business.
- ii. The size of any work advance should be justified in relation to the expenditure for which it is intended. The request must be approved by the Line Manager, Finance & Administration Coordinator, Director. The request should provide satisfactory details for requesting the advance.
- iii. The Work Advance Request form is only an indication of how the advance is likely to be spent. It does not represent any form of accountability. The staff member must submit a separate expense form with full supporting documentation attached, when liquidating the advance.

EXAMPLE WORK ADVANCE REQUEST

Date:	Date:
NOTE: This advance is made on the conditions that it must be acquitted within five working days after return from travel, and that if it is not acquitted within 30 days the full amount will be deducted from the next salary.	

21.2.1 Limits to Work Advances

- i. The size of a work advance should be justified in relation to the expenditure it is intended to cover.
- ii. Staff members must ensure that work advances are accounted for within five working days of returning to the office. An advance must only be provided when all previous advances have been accounted for and the unspent balance is refunded to the cashier. Exceptions to this rule can only be granted by the LDS Finance & Administration Coordinator.
- iii. If the work advance is not settled within 30 days of receiving the advance, the advance should be deducted in full from that individual's next salary payment. It is necessary to obtain prior written authorisation to deduct it from the staff member's salary.
- iv. All work advances must be zero as at 31 December.

21.3 CURRENCY OF ADVANCE

- i. Advances paid in local currency must be repaid in local currency.
- ii. Advances paid in hard currency must be accounted for in hard currency.
- iii. If a staff member has received an advance in local currency and an advance in hard currency, two advance accounts must be opened for the staff member for each currency.

21.4 TERMINATION OF SERVICE

When a staff member leaves the LDS all advances, both personal advances and work advances, must be repaid in full prior to the end of employment.

22. TRAVEL

22.1 AIR TRAVEL

All air travel should be done on the lowest available fares, and should be subject to the usual procurement procedures such as obtaining the required number of quotations. Also refer to the HR policy.

22.3 TRAVEL EXPENSE REIMBURSEMENT

- i. In addition to the permissible expenses detailed in section 25.2 above, national staff who travel internationally on LDS business are entitled to daily pocket money allowances as per HR Policy.
- ii. If additional remuneration is felt to be required in these instances, it is at the discretion of the Director.

- iii. The rules concerning permissible expenses for in-country duty travel are included in the HR Policy for LDS.

22.4 TRAVEL APPROVAL

- i. All international business travel to be undertaken by Director must be approved in advance by the LDS Board.
- ii. All international business travel for other staff must be approved in advance by the LDS Director.

22.5 DUTY TRAVEL FUNDED BY OTHER ORGANISATIONS

- i. If staff members travel at the request of related agencies or other organisations, travel costs incurred must be recovered from the sponsoring organisation.
- ii. LDS will consider paying expenses only when the sponsoring organisation states in writing that it is not able to do so. Any payment will be at the discretion of the LDS Director. When the LDS Director consents that LDS will pay certain expenses, it must be expressed in writing, together with the estimated amounts, prior to the travel taking place.

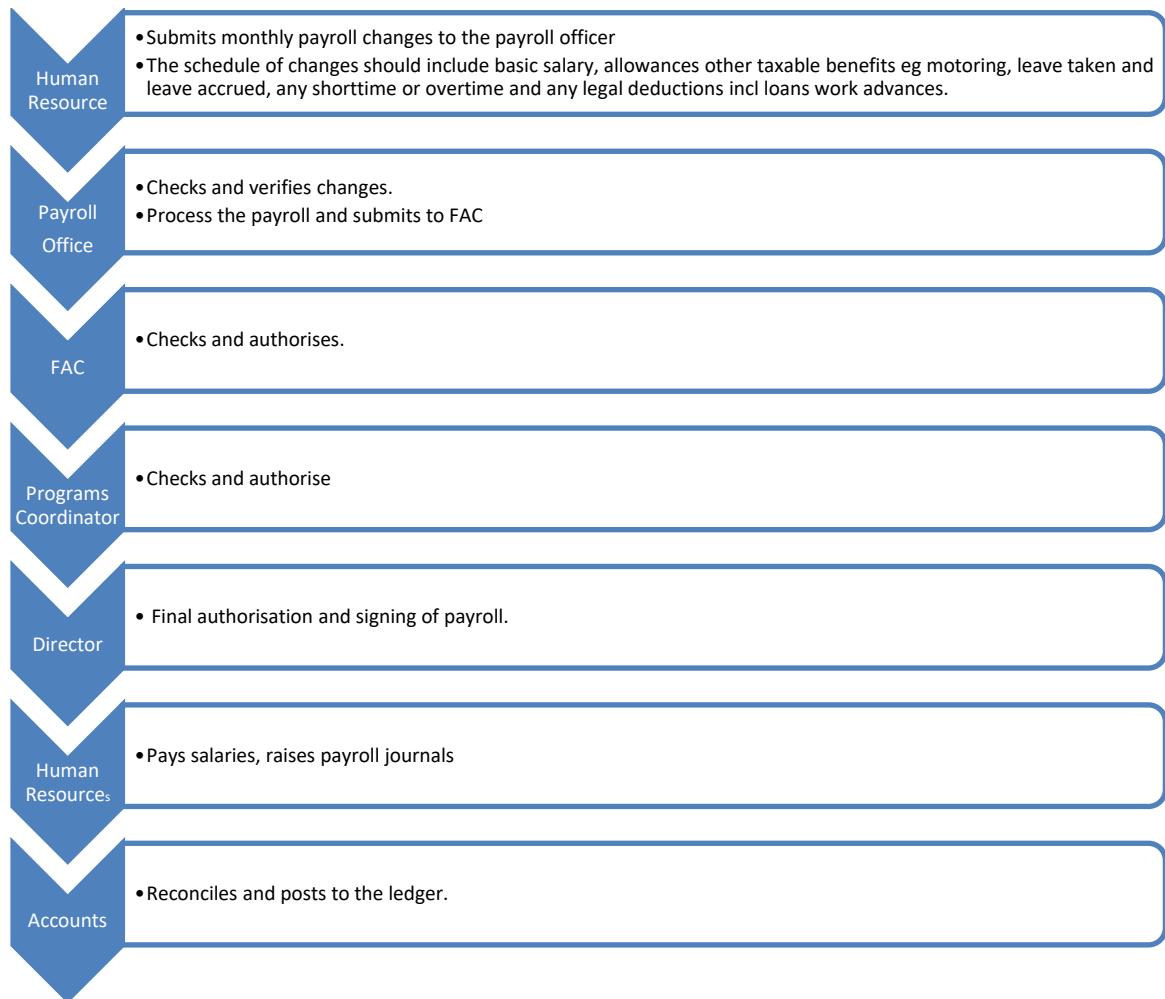
23. PAYROLL

23.1 PAYROLL SYSTEM

- i. The LDS payroll system is computerised.
- ii. The payroll software should be maintained on only one computer and access must be password protected. Backups should be taken at the end of each day that the payroll system is used. The backups must be stored off-site.
- iii. The ability to make changes to the payroll data should normally be restricted to one person. This would be the FAC or it may be the responsibility of a member of the finance staff. At least one other member of the finance staff should also be able to operate the payroll software to cover during periods of absence.

23.2 PROCESSING THE PAYROLL

- i. Changes to the payroll database must be made only on the basis of properly approved and authorised documents. The processing of payroll must follow the steps outlined in the workflow below. The names of the positions mentioned in the workflow may not exist. It is still very important to keep the separation of tasks as outlined.



ii. The payroll should be verified & signed by the Finance & Administration Coordinator prior to payment. The verification process should include the following:

- Identifying all changes that have been made since the last payroll date.
- Ensuring that all changes have been properly approved and are supported by correctly authorised documents.
- Checking the entitlements and calculations for terminated staff.
- Checking that all terminated employees have been deleted from the payroll.
- Randomly checks the payroll calculations.

23.3 PAYROLL DISBURSEMENTS

As far as possible, the net pay due to each member of staff should be settled by direct transfer to their bank account. The salary must be paid between 25th and end of every month. All staff should be encouraged to open personal bank accounts.

23.4 PAYROLL JOURNAL

The payroll journal helps to ensure that:

- All payroll costs are properly recorded on completion of the payroll even though some physical payments, e.g. payment of taxes, may take place much later.
- All statutory deductions are paid over to the relevant authorities.

- All salary costs are fully recharged to projects on the basis of timesheets.

This is done by initially posting the cost to control accounts or payroll clearing accounts which are then reconciled and zeroed each month.

23.5 PAYROLL FILES

As a minimum the filing system should contain:

- a) Original payroll summaries for each month with appropriate authorising signatures.
- b) Copies of all documentation explaining any changes to the payroll, e.g., new staff or new salary levels, and any additional payments or deductions in a given month.
- c) Copies of individual pay slips.
- d) Copies of staff signatures for salaries that are paid by cash.
- e) Copies of correspondence with tax authorities regarding payment of statutory deductions including annual returns where appropriate.
- f) Copies of records of payments for staff deductions and contributions.

The Finance & Administration Coordinator must be satisfied that the personnel records are maintained to an acceptable standard.

24 NATIONAL STAFF PERSONNEL POLICY

LDS has a Human Resource Policy that covers most personnel management related issues. Refer to HR Policy

25 VEHICLE MANAGEMENT POLICY

All LDS country programmes maintain a fleet of vehicles. Many of these fleets are large and several country programmes operate in-house vehicle workshops. In most cases the cost of running the fleet is the second most significant expenditure in the budget. It is also an area that is most open to abuse. It is very important that vehicles and their costs are monitored and controlled in a manner that is transparent and that can be easily audited.

25.1 VEHICLE POLICY

- i. LDS has a vehicle policy. This sets down the policy on a range of issues such as:
 - o Authorised drivers, driver qualifications and training
 - o Log books
 - o Purchasing and replacement
 - o Disposal
 - o Purchases of fuel and lubricants
 - o Maintenance and repair
 - o Insurance
 - o Official use of vehicles
 - o Private use of vehicles by staff
 - o What to do when accidents happen
 - o Carrying of passengers
 - o Depreciation

- ii. The Vehicle Policy is linked to the procedures in the LDS Procurement Policy.
- iii. When private use is permitted the staff member should be charged by a kilometre rate as calculated by the Automobile Association of Zimbabwe. The charge is to be sought by the Finance & Administration Coordinator and approved by the LDS Director.
- iv. The private use of LDS owned vehicles is generally not permitted during vacation periods. In exceptional cases only, when staff members need to use a programme vehicle during vacation, a written request must first be submitted, stating the reasons why the vehicle is required for that purpose.

26. ARCHIVING & FILING

26.1 FILING SYSTEMS

- i. All documents that are important should be filed both electronically and physically. This includes things like letters, reports, minutes, funding proposals, accounts, invoices, budgets, work plans, service contracts and job descriptions. The filing system should separate all information into logical and easy to find categories. Everyone who needs to use documents should know where to get them.
- ii. Finance documents must be sent from the project office to headquarters in Harare. The documents must first be photocopied and the photocopies kept on file in the project office. This is to cater for external audits that are normally done in Harare.

26.2 RETENTION AND STORAGE OF DOCUMENTS

- i. The period of time that documents must be retained will usually be stated in the agreement with the donor. The retention period will vary, according to the following:
 - a) Local legislation - details of the statutory minimum retention period for documents should be ascertained by the Finance & Administration Coordinator and recorded in the local procedures manual. If the local statutory minimum retention period is less than seven years, then the LDS minimum requirement must be observed.
 - b) LDS minimum retention period is seven years from the completion of the project.
- ii. Some donors may require the records to be kept for an entire project for 5 years after they have officially declared the project closed. This means that if the project was for a 5 years period, the records must be retained for 10 years. Check the agreement that was signed with the donor. If the donor's requirements are unclear, ask the donor for clarification in writing. Storage of documents
- iii. All stored documents must be kept in a clean and dry area. If possible, the area must also be safe from the threat of fire. The storage area must be easily accessible and the documents must be stored in a systematic manner.

26.3. Storage of electronic data

Non-current electronic data must be stored in a safe place. Critical electronic data should be copied and stored in a separate place. The storage area should be clean, dry and safe from the threat of fire. The data must be stored in a systematic manner.

26.4. Emails

- i. Emails must be subjected to the same procedures as other electronic data. All emails that were received and sent by an employee who has either left the organisation or has been transferred to another position within the organisation should be made available to the employee who is the replacement.
- ii. Employees must use a designated LDS email address for official communication. For further information, refer to the HR policy on email communication as well.

27 STAFFING OF THE FINANCE DEPARTMENT

i. Finance & Administration Coordinator (HQ Based)

LDS programme has Finance & Administration Coordinator who holds the responsibility for finances of the LDS programme and is based at the Head Quarters (HQ) in Harare.

The appointment of an experienced Finance & Administration Coordinator is done by the LDS Director. The duties of the Finance & Administration Coordinator can be summarised as follows:

- Financial leadership – establishment and oversight of financial policies, systems and procedures.
- Financial accountability to funding partners and donors
- Ensuring compliance with systems and procedures
- Organisational and project audits
- HR function leadership – policies systems and procedures.
- Administration functions – policies systems and procedures
- Assists in the preparation of and verify the accuracy of all project budgets

ii. Accountant (HQ based)

It is very important that the Finance & Administration Coordinator has a deputy who is capable of taking the role of Acting Finance & Administration Coordinator during his or her absence, and of maintaining the timeliness and quality of reporting.

The Accountant should be a person who is highly trustworthy, possesses an accounting qualification, ideally has a high level of relevant experience with an organisation or NGO of similar size, and be capable of training other staff (including the staff of partner NGOs) in the area of financial management and control. The duties of the Accountant are as follows:

- Prepares and analyses financial records
- Prepares financial reports and drafts for audit purposes
- Prepares management financial reports
- Ensures compliance with financial policies and grant regulations as stipulated by the different donors
- Prepare financial reports for different donors in accordance with each donor requirements.
- Deputizes the Finance & Administration Coordinator.

iii. Finance and Administration Officer (HQ based)

The duties of the Finance and Administration Officer are as follows:

- Implementation of HR and administration policies, systems and procedures
- General administration functions including file management, procurement, requisitions and transaction recording.

iv. Finance Assistants (Field Office x2)

These positions will support the finance and administration functions at the field Offices

v. Administration Assistants (Field Office x2)

Staffing of the finance department, except for the position of the Finance & Administration Coordinator, will be decided upon by the senior management team of LDS.

Every effort should be made to recruit high quality staff and to provide opportunities for continuous professional development. The Finance and Administration Coordinator must take responsibility for developing the skills of junior accounts staff to the point where they can undertake higher levels of tasks when the Finance & Administration Coordinator and the Accountant are absent for short periods of time.

Policy approved by the LDS Board on: 28th November 2020