



**Advocacy Center**  
for **Democratic Culture**

# **FINANCIAL POLICY MANAGEMENT OF NGO ACDC**



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## 1 PURPOSE

The *Financial Policy Management of NGO ACDC* has been developed using inputs obtained from various training sessions with NGOs and best practices of financial policy management and is intended to maintain organizations in its financial management function.

The Financial Policy covers the accounting system, budget, financial reporting, payments, annual financial statements and tax policy. The Financial Policy defines the set of procedures on financial administration intended only to provide practical information of organization in terms of fiscal accountability.

## 2 FOCAL POINT

The financial situation of NGO ACDC will be reviewed on a monthly basis, with the focus on the budget, receipts and expenditures. The Financial Manager shall be responsible for ensuring that financial control is in place while both of them shall be responsible in regard to following financial issues:

- Financial Management
- Payroll Management
- Office & Administration Management
- Budgets and Management Reporting
- Management reporting to Executive Director and Audit
- Cash flow management processes
- Manage processes to record & reconcile expenses and provide regular monthly reporting
- Expenditures remain within the budget
- Expenditures are only for the purposes set out in the budget
- Financial documentation, including quotations, invoices and receipts are collected and filed in an orderly manner

It is imperative to have internal financial control mechanisms and policies in place. Internal accounting control comprises a series of procedures designed to promote and protect sound management practices, both general and financial. By following internal accounting control procedures, NGO ACDC will significantly increase the likelihood that:

- financial information is reliable, so that managers and the Board can depend on accurate information to make decisions,
- assets and records of the organization are not stolen, misused or accidentally destroyed,
- the organization's policies are followed

The Executive Director shall be responsible for overseeing the regularly implementation of policies and procedures. Due to the number of detailed requirements involved when an organization receives funding from a given donor, the Financial Manager of NGO ACDC will be entitled to review the specific regulations, requirements and compliance factors specific to that donor.

### **3 EFFECTIVE DATE AND APPLICABILITY**

This Financial Policy is effective from 1 January 2012 and defines instructions in the context of finance and administration.

### **4 THE ACCOUNTING SYSTEM**

A practical accounting system of NGO ACDC consists of the following:

#### **4.1 The funding agreement**

The funding agreement between the donor and NGO ACDC outlines all aspects regarding the project and should include the following:

- activities to achieve the deliverables
- funding of the project
- reporting on activities
  - narrative report
  - financial report
  - periods of reporting
- management of funding and procurement of goods
- stipulations in the budget regarding how the funding is to be applied.

#### **4.2 The budget**

The budget includes all planned activities listed by type of activity. It is a financial frame work listing all activities and deliverables as stipulated in the agreement. Each line item in the budget indicates the costs which may be incurred for the specific activity (for example, the number of workshops to be presented, the number of persons to attend, the venue rental costs, the presenter costs). Travelling costs and per diems are either provided for in a separate line item or aligned with specific activities. Fees per kilometre and per diems applicable are listed. Provision for administrative costs may include:

- bookkeeping fees
- audit fees
- telephone costs
- rental
- stationery
- other office costs
  - Office costs may be subdivided into specific costs or may be provided for as a lump sum for overhead costs for the total project
  - If divided into specific costs, actual costs are claimed per month as they occur according to specification
  - If specified as a lump sum, the total overhead provision may be transferred to a dedicated account from which running costs are paid monthly in total.

NGO ACDC can transfer the overhead funds to a dedicated account named, for example, 'own funds', pooling overhead funds from different projects. When transferring the overhead costs to an 'own funds' account, that sum is entered as an expense in the records of the project in the month of transfer in one sum. The organisation's running costs which are not project-specific may be paid from the 'own funds' account. Funds remaining in this account may also be used to bridge periods when projects have been completed and new projects have not yet commenced, but running costs like rent, telephone and insurance still have to be paid by the NGO ACDC.

#### 4.3 Bank account(s)

The choice of a bank will depend on the facilities available at the NGO ACDC's location. The decision is based on the existence of such facilities in northern Mitrovica and in compliance with applicable law in Kosovo.

- **Electronic transfers:** The transfer request is signed by two signatories, as has been determined. The Financial Manager authorized by Executive Director does the actual electronic transfers. The transfer documentation is signed by the signatories who approved the transaction. For each project a separate sub-account shall be opened for the specific use of the donor's approved budget and activities. Bank reconciliations shall be conducted on a monthly basis by the Financial Manager and approved by the Financial Director

#### 4.4 Petty cash

Financial Manager should have control over cash funds, have sole access to the cash, and assume responsibility for the reconciliation of the petty cash vouchers and the remaining cash funds. If the Financial Manager is in charge of petty cash, Financial Manager is designated to supervise the petty cash operation at intervals. The handler of petty cash is responsible for the reconciliation of the petty cash funds and is liable for any shortages of cash. The key of the cash box remains with the person handling petty cash at all times.

- Cash is kept in a cash box in a secure, lockable cupboard or a safe
- For pay-outs from petty cash, a petty cash request form must be completed
- The recipient of the cash signs the petty cash request form when receiving the cash
- The transaction is finalised when proof of purchase (invoice or till slip) is handed to The Financial Manager of the petty cash and any surplus cash has been returned
- The final amount paid, and the funds returned to petty cash, are noted on the petty cash request form

### 5. FIXED ASSETS LIST

In the case of general purchases (stationery, refreshments, fuel, cleaning material):

- a purchase order is completed before the item is purchased;
- the delivery note, confirming receipt of goods, is signed by the designated NGO ACDC staff receiving the goods;
- the invoice is approved by the Executive Director and Financial Manager for payment and signed, along with the payment request form and he or she indicates the relevant budget line item;
- the payment is made by bank or electronic transfer;

- low cost items such as refreshments and cleaning materials are mainly purchased via petty cash.

## 6. RECORDING OF PROJECT ACTIVITIES

The Financial Manager will be responsible for bookkeeping for all NGO ACDC financial transactions. The accounts must be kept in accordance with acceptable practices of accounting. Activities should be executed as agreed upon in the agreement with the donor. Records and proof per activity shall be kept. Reporting is usually done as follows:

### a) Narrative reporting on activities

The Program Manager summarises the activity, supported by the following documentation, also reporting on outcomes, challenges incurred and results achieved, if measurable:

- an attendance register, signed by all participants of workshops, conferences and seminars;
- the date, place, venue and subject of the seminar or workshop and group addressed (recorded on the attendance register);
- evaluation forms, completed at the closure of the event by the participants
- questions regarding the presentation and the content of the workshop, completed anonymously by the participants of the workshop (listed on the evaluation document)

### b) Financial reporting on activities

All costs incurred for the presentation of an activity are summarised in a financial report:

- **venue costs** – rental of premise
- **presenter fee** – external consultant
- **travelling expenses** – per kilometre fees for presenter or participants from remote locations
- presentation materials and stationery used during the workshop
- refreshments consumed during the workshop
- **daily allowances** (*per diems*) –absence from home/office.
- When planning an activity, expenses must be aligned with the budget.

## 7. PAYMENTS

Payments are usually made electronically by internet banking or in cash. The procedure for paying electronically by internet banking is as follows:

- payment of an invoice is authorised by the Financial Manager and the Executive Director signature and an indication of the budget line item on the invoice
- the Financial Manager completes the budget allocation form, and attach the invoice and bank receipt to the budget allocation form
- the invoice number, the date of the invoice and the project which funds the payment are clearly written on the budget allocation form in order to prevent double payment of invoices

*The procedure for payment in cash is as follows:*

- each payment in cash is recorded on a budget allocation form
- the Financial Manager is in charge to completes a cash requisition, noting the amount from the designated budget line

- the recipient of the cash is obliged to issue, where possible, a fiscal bill or a receipt as an evidence that the cash transaction is completed.
- after the purchase has been made, the proof of payment (invoice) and the remaining cash funds are returned to the Financial Manager
- the actual costs are recorded, and the budget allocation form is signed by the Financial Manager regarding the conclusion of the transaction
- the proof of payment is attached to the budget allocation form

### 7.1 Bank transactions – cash book

Bank transactions are consisting of electronic banking transactions, debit orders, and bank charges. Banks issue bank statements on a monthly basis or as agreed upon request by the NGO ACDC. All transactions are recorded on a schedule indicating:

- opening balance at the beginning of the month
- all cheques issued during the month, listed in numerical order
- all e-banking transactions, listed in chronological order
- debit orders paid by the bank
- bank charges
- balance at the end of the month.

### 7.2 Payment for Goods, Works and Services and petty cash

- All orders for procurement of goods, works and services must be made on official Purchase Orders regardless of the amount of money involved. All Purchase Orders should be treated as accountable documents. All payments should be made for goods and services with invoices attached to authorized Purchase Orders and a properly authorized payment voucher.
- All payments must be made by check or bank transfer.
- No check must be signed before it is written and all authorizing papers must be attached for verification.
- Payments will be made only against invoices and for all cash payments, payees must sign a petty cash voucher.
- Applications for petty cash in [cash or check] must be made in appropriate forms and must be certified by financial manager and approved by the executive director or in his absence, his Deputy. Petty cash should only be given to the employees and must be accounted within seven **days** of return [if it was for travel] or completion of the assignment for which the petty cash was issued. No petty cash will be given before the previous one has been accounted for.
- No advance payments shall be given for supply of goods or services unless provided for in the contract.
- Applicable Rates

While on official duty outside the NGO ACDC area of jurisdiction, employees and Board Members of the NGO ACDC will be allowed per diem at the rates that will be specified with special instruction. The per diem rate will include hotel accommodation, food and laundry. For accounting purpose, no receipts will be required but there must be evidence of night(s)/day(s) stayed out on duty. Day rate shall mean the Manager was out more than 10 hours but no overnight stay was involved.

No petty cash transaction should be left incomplete at the end of each month. The closing balance at the end of the month must be reconciled with the cash available. Any shortfall is refunded to the petty cash by the handler of the petty cash from his or her own pocket.

## **8. MONTHLY SUMMARIES OF EXPENSES**

On this schedule all expenses are recorded for each budget line item, per month. In one column the budget according to the agreement is listed. In another column the differences between actual costs to date and the budget are indicated, appearing as under budget or over budget. This schedule is an important instrument of NGO ACDC to keep track of the progress of spending on a funding agreement.

## **9. AUDITED ANNUAL FINANCIAL STATEMENTS (EXTERNAL AUDIT)**

The Financial Manager must within one month of end of each financial year complete accounting books and submit them to the designated external auditor for preparation of an audit report. The External auditor must submit to the Board Members an audit report within 3 months. The External Auditor must be provided in a timely manner with all required information/documents by Financial Manager to ensure completion of the audit report in time.

Each donor is supplied with a copy of the audited financial report.

## **10. REPORTING TO A DONNOR**

Intervals of reports will be as per the agreement between the donor and the organisation. Reports will consist of a narrative and a financial report. The narrative report covers all activities completed for the reporting period, in detail. The financial report lists all expenses progressively during the period of the agreement. The reports, as shown in the appendices, are adjusted to cover the donor's requirements.

Sometimes, during the period of the project, it appears that certain activities cannot be carried out as planned, or are not as effective as expected, but could, with adjustments, achieve better results. Under such circumstances, the consent of the donor is to be obtained ahead of changes in the execution of the project. Should this require adjustments to budget line items, such changes are discussed with the donor as well. Only after written consent of the donor has been received NGO ACDC may adjust it to the program.

## **11. STAFF ADMINISTRATION**

### **11.1 Salary payments**

Salaries are payable in Euros before the end of each completed calendar month. Tax is deducted according to the legal provisions and applicable law in Kosovo. A pay slip per employee is issued in duplicate. One is handed to the employee and the second copy is kept by the employer.

The pay slip lists the following:

- name of organisation
- name of employee



- period of payment
- basic salary
- all relevant deductions (listed individually)
- net payment due to employee

Payment of the salary is made either by electronic banking on the last day of the month for which the salary is due. All salary deductions have to be paid in Euro to the designated tax authority of Kosovo.

### 11.2 Income tax registration of employees

Employees have to be registered with the Kosovo Tax Registration Office. The Receiver issues a registration certificate indicating the tax payer's registration number. A copy of this certificate has to be kept by the Financial Manager.

### 11.3 Consultants

If external consultants are engaged for the completion of certain activities related to an agreement, an honoraria agreement is reached between NGO ACDC and the consultant. It stipulates the following:

- honorarium payable to consultant
- address of consultant
- profession of consultant
- donor and project for which the honorarium is granted
- period in which the task to be completed
- amount due
- budget line item
- activity description of work performed by consultant.

The honoraria agreement is signed by both a representative of NGO ACDC and by the consultant. The date on which the agreement is signed is recorded.

## 10. NGO ACDC's equipment and Facilities

Each equipment must be provided with a work ticket on which an authorized person would state clearly the purpose and source of financing.

The minimum books and records that must be maintained are:

- Purchase book in which all purchases and returns must be recorded;
- Sales book in which all sales and returns must be recorded (if any);
- Cash receipts journal that relates to the sales book and purchase book such that all cash receipts and expenses are recorded;
- Bank statements, including records of deposits and withdrawals.
- Copies of supporting documents for the entries in the books/journals must be retained and associated with the applicable book/journal.
- Registration of goods should be made along with other registration of present goods received during the year
- The Employee book in which all employees, if any, shall be registered
- An annual inventory (if any), must be taken by the business and that record of inventory must be retained, along with any other inventories of goods on hand taken during the course of the year.