Love for Children and Family Development Organization

Financial Management Policy and Procedure Manual



August 2024

Love for Children and Family Development Organization/LCF/

LCF

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Love For Children & Family Development Organization

Acronyms

AIDs Acquired Immunodeficiency Syndrome
AOP/B Annual Operational Plan/ Budget
ASP Area Strategic Plan
AUSAID Australian Agency for International Development
BoD Board of Directors
BTRF Bank Transfer Request Form
CPV Check Payment Voucher
CSA Charities Societies Agency
CPRF Check Payment Request Form
DEV Deprived, Excluded and Vulnerable
DFC Designated Fund Certificate
ECD Early Childhood Development
EU European Union
GRN Goods Receiving Note
HIV Human Immunodeficiency Virus
IGA Income Generation Activity
IPSAS International Public Sector Accounting Standard
LCF Love for Children and Family Development Organization
OVC Orphan Vulnerable Children
PCPV Petty Cash Payment Voucher
PV payment voucher
PPE Property, Plant and Equipment
SP Strategic Plan
TOR Terms of Reference
USAID United States Agency for International Development
VSLA Village Saving and Loan Association

I. INTRODUCTION

The following Organization is established within the meaning of the proclamation in accordance with the charities and society's proclamation No.621/2009 and 1113/2011certification # 1926 in Ethiopia.

a) Name:

The name of the Organization shall be ***Love for Children and Family Development Organization*** here after referred as "LCF"

b) Head Quarter:

The head office of LCF shall be in Addis Ababa around Mekanisa Nifase Silk Lafto Sub City Woreda 2 and it may establish branch offices at regional level and fund raising offices at Addis Ababa

c) Status

LCF shall be independent non-profit-making, non-governmental local organization rendering social, physical, psychological and voluntary services. LCF shall be governed by the board.

d) Vision

Strive to see Ethiopian Children and Youth becoming healthy, self-reliant, confident and productive citizen.

e) Mission

Promotes the well-being of Deprived, Excluded and Vulnerable Children, youth, and their parents and caregivers, through a holistic and comprehensive approach to develop productive citizens, enjoy a better quality of life and eventually contribute to societal growth.

f) Values

Values of LCF are: ***Humanity, Dignity and Respect, Compassion, Trust,***

g) Objectives

The Overall objectives of Love for Children and Family Development Organization are outlined in its memorandum of LCF.

These include:-

1. To improve the quality and coverage of services such as early childhood care, health, Basic education and Youth Development that support children to grow to their full potential where their safety is insure and their rights respected.
2. Improve the living condition of orphans, children with disability and in difficult circumstances with their rights respected.
3. Involve and support activities that enhance environmental protection; conflict resolution, democratization process and sustainable development.
4. Support activities that enhance the livelihood of care givers of children and youth.
5. Undertake activities which promote sexual reproductive health education and services.
6. Leadership and Livelihood skill for youth.

II. PREAMBELS

1. Back Ground:

Love for Children and Family Development Organization (LCF) is an indigenous, non-political, non-religious, non-profit humanitarian and development oriented organization working in Ethiopia for the well- being of Deprived, Excluded and Vulnerable (DEV) Children. LCF was registered and licensed by the Charities Societies Agency (CSA) in accordance with the charities and society's proclamation No.621/2009 and 1113/2011certification # 1926 starting from July 29, 2010.The Organization main office is found in Addis Ababa city

administration, Nefas Silk Lafto Sub City in front of Woreda 2 Administration around Mekanisa.

Love for Children and Family Development Organization directly benefit to more than 65,000 children and their families through Sponsorship LCF and different grant fund. Currently the organization operates in three sub cities namely Kolfe Keranio ,Nifas Silk Lafto and Lemi Kura of Addis Ababa City Administration with the overall objective to help Deprived, Excluded and Vulnerable (DEV) children have the capacity to become Young adults, parents and leaders who bringing lasting and positive change in their communities.

The Organization used grant and Sponsorship LCF fund as a major financial source to undertake various activities to improve Basic Education formal education Access to quality education, Health access to different health services, Early Childhood Care and Development access to pre-primary education, prevent the spread of HIV/AIDS and expand economic opportunity to highly vulnerable children and their families and Youth for vocational education and empower economic strengthening.

LCF has been implementing development activities since 2003 as an affiliated project of an international organization called ChildFund International and as an independent indigenous organization since July 2010 in Addis Ababa City Administration. The Organization mainly focuses on the wellbeing of children through an integrated service based on their age. The services mainly focus on four core programmatic areas namely, Early Childhood Development (ECD), Basic Education, Youth Development and OVC care and support programs.

III. Explanations

Objective: The objective of this manual is to establish a Financial Management system which helps for the efficient and economic utilization of resources available to Love for Children and Family Development Organization,

hereinafter, LCF, with an optimum internal control system which enables the safeguarding of resources from misuse and ensuring efficient, quality, and timely financial information system.

Applicability: The financial management of LCF, including all field offices and projects will be administered according to this manual.

Responsibility: The Finance and Admin Director and all delegated units shall be responsible for the proper execution of this manual.

Conflicting laws: If there is a conflict between relevant laws and regulations (Tax and Civil Society Authority) issued by the Government of Ethiopia and this manual, the laws and regulations shall prevail. If there is a conflict between this manual and agreement entered into with a funding organization as to financial management, the agreement shall prevail.

Effective date: This manual shall be effective from August, 2024.

IV. PURPOSE

LCF continued service depends on its ability to safeguard and manage effectively and efficiently all donor funds (including locally generated income) entrusted to it. Central to this goal is a sound structure of financial management and control to maintain both integrity and confidence.

This Manual describes the financial policies and procedures for ensuring responsibility and accountability on effective and efficient use of funds. The procedures are aimed to give Management (including the Board) accurate, complete and timely financial information.

Any deviations from adhering to the procedures contained in this Manual by LCF staff should be in writing and approved by the Executive Director.

The implementation of this Manual is essential for the successful delivery of LCF services as we conduct our activities morally, ethically, in the spirit of public accountability and transparency, and in conformity with applicable laws and regulations and practices common with responsible organizations.

The principles and suggested procedures in the Manual reflect systems currently in operation, or being implemented by LCF and those expected to be adopted by its sub-partners.

This Manual has been designed to suit specifically the accounting and financial management practices at LCF, and the general principles and essential features are applicable to all resources no matter their sources.

This Manual is not exhaustive but provides a framework for accounting and financial procedures within the organization.

V. SCOPE

This Manual should be used across LCF to guide the handling of finance functions. It provides guidance on all financial procedures and reporting requirements.

VI. Objectives of the Manual

The overall objective of this Financial Management Policies and Procedures Manual is to provide guidance and a framework for the efficient and effective utilization of LCF's resources in the course of attaining its organizational objectives.

6.1 General Objectives

The general objective of this policy and procedure manual is to enable LCF prepare financial statement, prepare timely reports, put in place effective internal control system and exercise proper custody over its resources.

6. 2. Specific Objectives

1. To define responsibility and authority of those parties involved in financial operations of the LCF,
2. To provide clear policy guidelines with regard to financial matters and operations,
3. To maintain consistency in accounting methodology and function that is being followed,
4. To create efficient and effective accounting system,
5. To secure compliance with policies, guidelines and laws,
6. To enable LCF to systematically manage donor grants,
7. To establish proper internal control systems,
8. To enable the production of Executive Directorial information that will be used for the purpose of timely and proper decision-making,
9. To prevent material losses and/or misappropriation of assets of LCF,
10. To ensure that financial records and statements are complete, accurate and reliable,
11. To ensure that financial reports are prepared and submitted on time,
12. To enhance control over the utilization and management of financial resources of the LCF,

The manual is prepared by taking into account the following essential items:

A. The nature of the operation of LCF,

B. Good practices in financial management in non-for-profit organizations which includes planning, budgeting, accounting, internal control and monitoring of financial resources,

C. International Public Sector Accounting Standards (IPSAS)

D. Relevant government laws including tax and Civil Society Proclamations, regulations and guidelines.

6.3 Need for revision Financial Policy and Procedures

The manual primarily serves the financial management staff of LCF on the day to day execution of their work. The application of the manual will assist the finance staff to produce financial information to be provided to Board of Directors, Organization Directors, Program Specialists and Officers and other stakeholders including donor and government.

Proper application of the manual will help to produce accurate, complete and timely information on utilization of financial resources by projects, segments and programs. The submission of such financial information at the right quality, on a timely basis is equally important to ensure viability and accountability of LCF to the donor, government, targeted population and other stake holders.

6.4 Revision/ Amendments of Financial Policy and Procedures manual

Policy

1. In order to comply with the changing situation, the overall finance policy and procedure manual shall be revised whenever situations are forced to change.
2. Revision of specific policies and procedure can be made at any time when such revisions are found to enhance efficiency and control in the financial administration of the LCF. The Finance and Admin Director shall be responsible for recommending the revision.
3. The overall finance policy and procedures manual shall be revised every three years, if so required.

Procedures for Revision

Revision of the overall Financial Policy and Procedures Manual

1. The Finance and Admin Director shall be responsible for recommending revision of the manual when the need arise and situation is forced,

2. The revised policy and procedures manual shall first be discussed on management meeting before it is presented to the Board for approval.
3. The Board approves the revised financial policy and procedure manual.
4. After approval, all the old manuals shall be collected, and the new manual shall be issued in replacement.
5. Orientation will be given, to staff members who are directly involved in the use of the manual.

6.5 Revision of section or sub section of the policy and procedures

1. Initiative to revise a specific policy and/or procedure for improvement can originate from any source within the LCF.

2. When such initiation is forwarded, the Financial and Admin Director shall revisit the specific existing policy and/or procedures in question in line with the proposal.

3. Finance and Admin Director shall then forward recommendation on Specific policy or/and procedure to the management. The recommendation shall state whether or not the existing policy or/and procedure continue or should have to be changed.

4. If the recommendation is for a change of existing policy or/and procedure, management shall discuss on recommendations, endorse the change, and then present the case to the Board for approval.

5. Once approval is made, the Finance unit should circulate in due time the revised policy or/and procedure to all those users to whom manuals were issued.

6. Revised policy or/and procedure should be insert by taking out the old one from the existing manual or issued a new manual with amendments by collecting existing manual.

6.6 *Applicability*

This manual is a handbook but not ever static, rather its sections, sub-sections or overall policy should get changed / modified to cope with the changing working environment. This policy and procedure manual called "The LCF Financial Management Policy and Procedural Manual" and applicable effective as of immediately up on approval by the LCF board, should be strictly applied by all staff.

6.7 Custody, issuance and confidentiality of the manual: -

Policy

1. The documentation section under Finance and Admin Director shall be the sole responsibility for custody and issuance of Finance Management Policy and Procedure Manual of LCF.
2. The manual is strictly confidential and its circulation shall be limited to authorize units of LCF.
3. The LCF staff cannot release (borrow) the manual to third party.
4. It is the utmost desire of LCF that this manual should be made accessible to LCF personnel or other persons only for the purpose of undertaking a duty assignment, which requires the use of the manual as information source.
5. Manuals are not issued to individual person but to specific unit or Department.
6. Approval for issuance of the finance policy and procedure manual is the responsibility of Finance and Admin Director.

VII. FUNCTIONS

The manual is intended to serve the following functions:

A. As a procedure guide for all staff;
B. Establish procedure for standard reporting;
C. Put into writing the main Financial Policies and Accounting procedures for operations and controls and
D. Strive for consistency, efficiency and accuracy in the financial administration of LCF's funds;

This manual is also designed to cover the most critical, important areas of operations and the specific requirement of donors. It is expected that additional sections will be added from time to time.

In each sections of the manual, sufficient explanations have been given to indicate the user the procedures to follow on the basis of the flow of work. Various financial service forms have been also designed and included.

VIII. METHODOLOGY

The financial and accounting manual are revised with full consultation with the Organization Management team and Board. Professional textbooks of finance, accounting, IPSAS, and auditing, donor and regulatory requirements are also referred for the accuracy of principles and sound internal control systems.

IX. Accounting Method

The accounting system and procedure of LCF will be based on the International Public Sector Accounting Standard (IPSAS). The system will stick to the bylaw of LCF, relevant proclamations and regulations of the government.

This manual operates on accrual basis of accounting method. Income is recorded when cash is earned and expenses are recognized when it is incurred (Accrual basis).

The LCF follows a centralized accounting system with the maintenance of independent sets of books with separate earmarking funds and/or an independent contract.

All donations received in kind shall be recorded at its invoice or fair value suggested by the donor. Accounting reports are produced at the end of the reporting period for donor and Government Offices and should be auditable by the document.

LCF shall maintain subsidiary ledger accounts for each receivables and payables. Incomes are recorded by identifying the sources of incomes as local and foreign. Expenditures are detailed for each type of program, project, activity and administration to meet government regulation.

All transactions are interpreted clearly and objectively. Sufficient information and supporting documentation is gathered for each transaction.

Every effort shall be made to provide sufficient segregation of roles and responsibilities, initiation, authorization, and disbursement of financial resources to insure the highest level of transparency by maintaining a high level of management review of all transactions.

1. Organizational structure/ Financial Responsibilities of LCF: -

LCF has a well-integrated and highly organized system of governance in place. The organization has the Board as the highest decision making body with a supreme power of shaping the overall direction of the organization. The Board is responsible to made higher level decision and review and approved periodic statutory audit undertaken by both external auditors. Furthermore, the Board is responsible to monitor the proper application of this manual at all level.

The board of directors is responsible to approve this financial policy manual and follow-up its proper application. In addition, the Board of directors is responsible

to review the financial system of the organization in a quarter bases and provide adequate feedback and technical support the management of LCF. It also decides on policy and strategic issues of the organization.

The management committee represents a unique composition where each Specialist and Directors of departments as well as Executive Director are a member. The structure and governance system of the organization ensures upward and downward communications and accountability. The management committee is responsible to ensure and follow-up the accountability, transparency and the proper flows of the financial and other resources of the organization.

The Executive Director of LCF s responsible to oversees financial polices/control have been maintained and implemented properly, supervises the preparation and submission of accurate and high quality budgets and financial reports in accordance with organizational requirements, approve expenditures as per the approved budget and LCF financial policy manual, operate the LCF's bank account with the organization's Finance and Admin Director in accordance with organization policies and procedures, oversees the implementation of appropriate actions over audit findings and ensure strong internal control in placed at all level.

To maintain the good track records and the reputation of the organization in financial management, the organization has separate and autonomous Finance department.

The department is composed of highly qualified and well experienced personnel that undertake the role of Finance and Admin Director, Accountant and Cashers.

The following are the major function categories of the Finance department specifically pertaining to financial management.

1. Management of the Finance Department including staffing, organization, and internal controls,
2. Facilitating the planning and budgeting formulation, execution, and control,
3. Plan for the solicitation of funds, financial sustainability in collaboration with the management of LCF
4. Monitor financial resource availability to execute the timely operation of LCF as designed in its implementation and action plans,
5. Implementation of appropriate accounting system in line with the financial policy and procedure of LCF,
6. Timely recording of financial transactions and submission of the required management and financial accounting reports,
7. Ensure that the appropriate level of internal controls is in its place in collaboration with the management of LCF and ensure the compliance of the internal control procedures,
8. Collaborate and facilitate internal and external auditing and appropriately follow-up on the recommendations and findings of auditors,
9. Ensure that LCF is discharging its financial obligations to others including the government and vendors,
10. Ensure that appropriate recording systems are in place to safeguard the resources of LCF.

X. ACCOUNTING SYSTEM

Policy

A. The LCF shall use "Customized Peachtree" or other financial software system to process all financial data and generate required reports. (Sage 50 Quantum Accounting 2013)

B. The Computerized Accounting System shall be an integral part of the internal control system and structure.

C. The accounting system shall be centralized at Head Office level.

D. Project Office, if any, shall use excel spread sheet for data entry that can easily export to Peachtree system which significantly reduces the volume of data to be entered to system.

E. Project Office, if any, cut-off reporting date shall be 25th of the month

F. The Head Office cut-off shall be 28th of the month and the remaining 2- 3 days shall be preparation time.

G. All accounting transactions should be recorded into the computerized accounting system on a Weekly basis.

H. Only Authorized personnel shall have access to the computerized accounting system and its components.

I. Computer files must be backed up on a Fifteen days' basis using a separate media (i.e. Hard disk, USB, or cloud-based software), and must be kept in a safe place outside the server room.

10.1 Basis of Accounting: -

LCF International Public Sector Accounting Standards (IPSAS) Principles with Accrual basis of accounting.

10.2 Centralized Accounting: -

The accounting transactions are processed centrally at the head office. Branch Offices are required to produce their own financial reports for the following

☞ Head Office and should transfer the backup documents to Head Office for central transaction processing.

☞ Branches are to follow the same procedure as the head office. As branch accounting is not separate, there is no need to have branch and home office accounts or exchange debit and credit advices.

10.3. General Accounting Practice

10.3.1Transaction Recording

Policy

1. LCF shall keep a systematic record of day-to-day transaction of both collections and payments.
2. Transaction during the period shall be recorded with Completeness, Validity, Accuracy and Maintenance, which are the four basic test of transaction.
3. LCF shall use both computerized and manual system of accounting to record and process transaction.
4. The manual Accounting record shall be:
    - Petty cash register book
    - Bank book
    - Fixed Asset Register Card or Book
    - Stock Ledger and Bin card



5. Transactions shall be journalized and entered into the computer system and manual book daily.
6. The statements from the computer system shall be compared with that of the manual to check the accuracy monthly. Any discrepancy shall be investigated and correcting action shall be taken immediately.

10.4 Accountable Documents & Recording: -

A. Accountable documents shall be printed upon the authorization of the Executive Director.

B. The Finance Department shall be responsible for the development, printing, maintenance (ensuring safe custody and control of documents), and recording of accountable documents.

C. Unused accountable documents should be controlled, registered and kept safely.

D. The relevant copies of used accountable documents should be recorded, filed sequentially according to their type, and kept intact together with supporting documents in a secured place.

E. Used accountable documents together with the supporting documentation shall be kept for a minimum of 10 years and disposed after ten years up on the authorization of management.

10.5 COST PRINCLCFLES

10.5.1. Allowable Cost

For any cost to be allowable under Sponsorship LCF, specific grant agreement the costs must meet the following general criteria:

- Be reasonable for the performance of the grant agreement and allocable thereto
- Be consistent with organizational policies and procedures
- Be determined in accordance with Generally Accepted Accounting Principles (GAAP) and International Public Sector Accounting Standard (IPSAS)
- Conforms to any limitations or exclusions set forth in the principles or in the agreement as to types or amount of cost items, and
- Be adequately supported with full of document.

10.5.2 Reasonable Cost

A cost is Reasonable if in its nature or amount it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. In determining this, it should consider whether the cost is of a type usually recognized as normal and necessary for LCF operations.

- Be incurred during the implementation of the action
- Be indicated in the estimated overall budget for the action
- Be necessary for the implementation of the action
- Be identifiable and verifiable;
- Be comply with the requirements of applicable tax and social legislation;
- ..Be reasonable, justified and comply with the requirements of sound financial management

10.5.3. Allocable Cost

All costs incurred should be allocable to projects i.e. its activities or benefits can be distributed reasonably to that specific project.

Transactions processed using the respective source documents must be stamped processed/paid to avoid duplication.

XI. INTERNAL CONTROL

11.1 The preparation of the Financial Statements should ensure the following objective:

1. Relevance: Select methods of measuring and reporting that will aid those individuals who rely on financial statement to make decisions.

2. *Understandability*: information must be capable of being understood by all stakeholders, i.e. donors, government agencies, community, employees, etc.

3. *Verifiability:* The financial representation of a transaction is verifiable if knowledgeable and independent observer would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

4. *Neutrality*: Information is neutral when it is free from bias that would lead stakeholders towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when the measure tends to consistently overstate or understate the items being measured.

5. *Timeliness:* Financial statements must be provided timely in order to be useful in decision making. Information after a decision is of no value.

6. *Reliability*: Information is reliable when it is in agreement with actual underlying transactions and event, the agreement is capable of independent verification and the information is free from error and bias.

7. *Comparability:* Comparability may be regarded as inter-comparability (between NGOs) or intra-comparability (between years) and enables to identify similarities in, and difference between information provided by two sets of financial statements.

8. ***Consistency:*** Financial statements should be prepared consistently for consecutive accounting period and should be consistent with International Public Sector Accounting Standard (IPSAS).

9. ***Completeness:*** Completeness requires all financial accounting data, meeting the other qualitative characteristics, to be reported. This objective can be called "full disclosure"

10. ***Conservatism:*** Conservatism is followed when alternatives exist and the alternative with the least favorable effect upon equity is chosen.

11. ***Continuity:*** The NGO business is considered as a going concern in the absence of evidence to the contrary.

12. ***Entity:*** the NGO business is separate and distinct from its Executive Director, founders, employees and any other individual members and Boards, etc.

13. ***Historical cost:*** accounting is generally based on the Historical cost approach where the amount of money exchanged is used as the basis for the recognition of goods or services acquired.

14. ***Materiality:*** Users are interested in information that may affect their decision-making.

15. ***Materiality:*** is the term used to describe the significance of financial statement information to decision makers. Information is materials if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements.

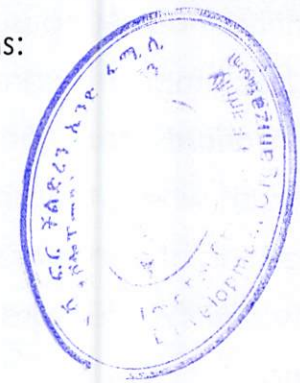
16. ***Quantifiably:*** The physical quantities of assets and operating resources must be converted to monetary value.

11.2 Specific Internal Control procedures

Cash collection

1. Ensure that cash is to be collected by authorized The LCF cashiers only.
2. Check that cash receipt is issued for all cash collection

3. Ensure that unused receipt pads are kept by someone other than the person using them.
4. Ensure that secured cash safes are used by cashier to keep money.
5. No person, other than cashier, shall have access to cashier's office.
6. Keys of the cashiers' office shall be restricted to cashiers only.
7. Ensure that daily cash receipts are deposited intact and that bank stamped deposit slips are delivered to Finance Unit immediately after deposit.
8. Prohibit access by cashiers to accounting records in the account office.
9. Prohibit cashier from performing the following functions:
    - I. Maintain income account
    - II. Sign payment vouchers
    - III. Prepare or sign checks



Petty Cash

1. Conduct surprise cash count of petty cash.
2. Ensure that petty cash book is maintained to which shows the daily expenditures and the balance on hand.
3. Use pre-numbered petty cash voucher.
4. Prohibit persons who sign checks or approve payment vouchers to have access to petty cash fund.
5. Prohibit persons who sign checks or approve payment vouchers to record and/or post transactions.
6. Check that daily cash on hand report is delivered by main cashier and the petty cash custodian to the Head of Finance.

Check

1. Ensure that voided checks are attached to the check-stub.
2. Ensure that vouchers, invoices and other supporting documents are stamped "paid" immediately after the signing of payment voucher.

3. Ensure that signatures on checks belong to authorized signatories.
4. Check the appropriateness and handling of void and cancelled checks.
5. Examine the bank statement for any irregularities.
6. Check the correctness of the bank reconciliation.

11.3 Segregation of duties

1. Requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or record keeping.
2. Prohibit relatives to work in cash and accounting sections.
3. Prohibit the person who approves vouchers from undertaking purchasing and payment activities.
4. Cross reference invoices and all other relevant documents to prevent duplicate payment.
5. Purchasing function should be separate from receiving, invoice processing, accounts payable and general ledger functions.

11.4 Check and Balance

1. Cross reference invoices and all other relevant documents to prevent duplicate payment.

2. Balance subsidiary ledger records with general ledger control account periodically.

11.5 Adequate records and documents

1. Provide evidence that financial statements are accurate.
2. Controls designed to ensure adequate record keeping including the creation of invoices and other documents that are easy to use and sufficiently informative, the use of pre numbered consecutive documents and timely preparation of documents.

11.6 Physical control

1. Physical control over assets and records helps to protect the LCF's assets.
2. These control activities may include electronic or mechanical controls such as a safe, employee ID cards, fences, cash registers, fireproof files and locks.
3. Computer-related controls dealing with access privileges or established backup and record procedure.

11.7 Payroll

1. Do not allow the person who approves the payroll to participate in payroll preparation.
2. Ensure that payroll sheets are verified by someone other than those who prepared the payroll.
3. Check those uncollected payrolls are deposited in the LCF bank account.

Approvals

1. Ensure that all the LCF activities adhere to established guidelines unless the Executive Director approves another course of actions.
2. All expenditures should approve in accordance with The LCF written account payable and purchasing policies.

11.8 Procurement

1. Sole source of purchasing must be justified by notation on purchase orders, contracts, and Requisition purchases over a certain amount.
2. Purchases should be reviewed and tested for reasonableness of derived benefit.
3. Purchase order must be issued sequentially with number.
4. Purchase order should be priced, signed, and coded.
5. Purchase orders and Requisitions should be actually reviewed to ensure the coding is correct.

6. Vendor invoices should be received and reviewed by the accounting Department first.
7. The Finance Department must compare the invoice to the purchase order or contract and receiving documentation.
8. Duplicate copies of invoices should be destroyed to prevent duplicate payments.
9. Someone should periodically review and compare signatures on purchasing documents.
10. If blanket purchases orders are used, proper review procedures should be in place to prevent abuse.

XII. FINANCIAL POLICY AND PROCEDURE

The overall control and direction of the organization is under the Board of Directors. The day to day affairs of the program is managed by the Executive Director. The Finance and Administration Director assists the Executive Director by handling both the finance and administrative functions of the LCF.

1. Board of Directors (BoD)

The Board, in relation to financial matters, has the following responsibilities:

1. Approves, transfer and disposal of fixed assets;
2. Approves the financial policies and procedures;
3. Approves of Annual budget
4. Approves Annual Finance report
5. Appoint External Auditors
6. Approves Audit Report; and
7. Approves the Opening of Bank Accounts

2. Executive Director

The Executive Director, with regard to financial matters, has the following responsibilities:

1. Ensure that financial policies and procedures of LCF are executed properly and in most efficient manner;
2. After discussion with the management team, S/he submit annual budget and operational work plan to the board of Heads;
3. Facilitate bank account of The LCF and operate as per policies;
4. Approves the establishment of petty cash fund;
5. Authorize above 50,000.00 birr payments;
6. Ensures that periodic financial statements and reports are prepared for management discussion on time;
7. Ensures that periodic accounting reports are prepared for presentation to the Board and donors and government offices;
8. Ensures that audited financial reports and statements are prepared and submitted to the Board for discussion and approval; and
9. Ensure that adequate insurance coverage is taken with insurance companies against the risks that the assets of The LCF may be exposed to.

3. Finance and Administration Director

The Finance and Administration Director has the following responsibilities with regard to finance:

1. Implement the decision of management as related to financial matters;
2. Recommend appropriate policies and procedures changes/additions/update;
3. Recommend improvements in the financial system of the LCF to management;
4. Maintain accounting books and records the LCF in accordance with International Public Sector Accounting Standards (IPSAS);
5. Ensure closure of books and preparation of financial statements annually;
6. Advice management on financial issues and cash management;

7. Design and apply sound financial controls;
8. Follow up new government directives related to LCF;
9. Insure the preparation of required reports to be submitted to supervising government authority;
10. Design and implement appropriate source documents, forms and books;
11. Operate the bank account and prepare monthly bank reconciliation;
12. Co-operate by making the financial records and reports available for internal audit;
13. Ensure and effect payment of employee payroll;
14. Control operation of the petty cash fund;
15. Maintain good working relationship with banks and donor agencies;
16. Plan insurance acquisition, handle policy renewals and settle claim notification of the contribution;
17. Provide the necessary assistance to external auditors upon auditing of the annual financial statement;
18. Identify budget line items, preparing draft budget and present for management discussion;
19. Ensure that no budget line item should be overspent without the approval of the Executive Director and the donor approval;
20. Check and verify terms, prices and clerical accuracy of vendor invoices before payment is authorized;
21. Check whether quantity and quality of goods are received as specified on purchase order before payment is authorized;
22. Provide better strategy to use financial resources effectively and efficiently;
23. Prepare financial planning, through which management would be able to make maximum use and profitable investment of its financial resources leading towards the effective and efficient achievement of LCF objectives;

24. Revise or design the chart of account based on certain basic considerations such as effective Financial system structure and policies and procedure of the organization in consultation with donor(s);
25. Follow-up and effect timely statutory payments such as taxes and contribution by employee or the LCF;
26. Follow-up the daily liquidity reports based on the cash book and bank book;
27. Maintain property register books with full description of the asset, date received, identification or code number, location and quantity; and
28. Control all disbursements in accordance with budget allotments.

12.1 Authority level

Policy

1. The request for procurement of goods/services, transfer fund to project, etc has to get the required level of approval by the Executive Director.
2. Approval of activities must be in writing and before fact. Pre dated approvals are not permitted.
3. The request shall be with in the budget and available fund.
4. All approvals have obtained authorization by the Executive Director or his delegate before funds are expended and aim to streamline the process.
5. E-mail approvals and authorizations may be used in case of urgency and these can only be reached via E-mail.
6. Department Director and Specialists can approve their own Department activities for internal authority and Finance & Admin approve external authority for cash or bank disbursements up to birr 50,000.00. Any activities amounting above this need to be approved by the Executive Director or his /her delegate.

12.2 Banking Arrangement

Policy

1. The daily cash collections from any source shall be deposited in the bank.
2. Open and operates bank accounts for all cash transaction above birr 1,000. Any payment less than birr 1,000 are paid in petty cash.
3. Deposit all surplus cash into interest yielding saving account.
4. Bank account shall be opened or /and closed only upon the recommendation of the Finance & Admin Director, Executive Director and approval of the Board.
5. All cash payments, in excess of the petty cash limit, shall be effected through bank arrangement.
6. Additional bank account could be opened to meet the requirement a specific donor/grantor.
7. All bank accounts must be in the name of the LCF

12.3 Checks

The preparation and issuance of check handled by Finance Department.

1. The preparation and issuance of check handled by Casher;
2. Checks shall not be issued when there is no sufficient fund in the bank account;
3. No blank checks signed by any of authorized signatories;
4. Authorized checks do not collect in Fifty days shall be cancelled and reversed;.
5. Check shall prepare with the name of the vendor or delegate.
6. Whenever possible direct transfer to the bank accounts of the vender/ service provider shall be encouraged.

12.4 Check Signing Authorities

1. Joint signatures shall be used for authorizing payment by checks. The signatories should include the Executive Director, Finance and Admin Director and or Finance Officer.
2. All approved bank accounts are required to have authorized signatories.
3. There should be a minimum of two and a maximum of three authorized signatories for the account.
4. Only authorized persons must sign the check.
5. Bank signatories shall be replaced within 30 days when they left the organization or when required by policy and procedure of the organization and government.

Procedures for Check payment

1. Approved and authorized "Check Payment Request Form (CPRF)" attached with required source documents shall be submitted to Finance Unit.
2. The payment request and the supporting documents shall be examined by the Finance Unit for validity and correctness of the payment request.
3. After approval, Finance Unit shall prepare payment voucher (PV) for the payment requested on the basis of the documents.
4. Check is prepared.
5. If any error is made on the check during preparation, the word "VOID" shall be stamped on the face of the check. The void check shall be attached to its check stub.
6. The check together with the CPV shall then be presented to appropriate signatories for signature.
7. The check shall be recorded in the check register.
8. The check is then kept safely until the payee comes to collect.
9. When the payee comes, the check is given against signature of the payee on the CPV.

10. After issuance of the check, the CPV and each of the attached documents shall be stamped "PAID".
11. The CPV shall then record in computerized accounting system.
12. If a check is to be cancelled after it has been fully signed, the word "CANCELLED" shall be written on the face of the check.

12.5 Income/Source of funds

Policies

1. The main sources for financing of the Charitable Society activities are:

a. ***Sponsorship fund***: is a source of fund generated from an individual sponsor on a monthly basis but which is transferred to Charitable Society account to execute planned program in the ASP and AOP/B focusing on the felt need of children and their family and approved by Donor.

b. ***Designated Fund Certificate (DFC for Children):*** Designated Fund Certificate or personal gift in form of cash or kind. This is the kind of fund granted on a certain occasion from individual sponsor directly to the sponsored child as gift and paid through the Organization. Each sponsored child is obliged to follow his/her sponsor's advice and utilize the gift accordingly. The Organization is also expected to report back to the sponsors inform of TYL on behalf of a child.

c. ***Designated Fund Certificate_(DFC for Project):*** It is a kind of gift send from an individual sponsor for the project to be used as a support of the program activities to strengthen sponsor relation and program activities. The project DFC is a sponsors' gift is used to the project where her/his sponsored child is located.

d. ***Grant Funds*** – these funds are generated from different donors for various development and emergency activities, which are basically of the Charitable Societies objectives. The Charitable Society will apply this funds for

the activities described on the grant proposal and agreement according to the requirement agreed upon between the Organization and the donor. Grants are given for a specific period, it can be for Organization fiscal year, calendar year, for number of years proposed for, in general the period is decided according to the proposed activities and related budget and approval of the donor as stated in each grant document.

e. ***Designated Funds*** - this represents funds allocated from various sources for a specific purpose other than grants and sometimes for a specific period of time, funds raised by Donors or other Alliance group or other sources.

f. ***Community contribution-*** either in cash or in kind such as volunteer or contributed services, and/or other community contributions.

g. ***Income Generation Activity –*** Revenue from IGA initiatives

h. ***Proceeds-*** from sale of old capital assets or other items

i. ***Income-*** from sale of items (ties, scarves, handcrafts, old vehicles etc).

2. Revenue is recognized at the time of earning the fund if the grant is for one Fiscal Period.

3. Revenue for Sponsorship LCF Fund, DFC for Children and DFC for project are recognized up on the fund is earned.

4. If fund is collected for more than one year, the collection is recorded as liability and revenue shall be recognized up on expended.

5. The unutilized money for specific activity or specific period of time is not considered as income until it is expended.

6. All the money that is not used for the activity allocated and for the period of time specified, it will be returned to the original source. Therefore, it needs efficient planning of activities, budgeting and implementation and evaluation process to use the resources as efficiently as required.

7. Donations in kind of any type including fixed assets are valued at fair value current market value and recorded as income and expenditure in the year of grant.

Collections

Policy

1. Collection may originate from various sources such as donation, miscellaneous income and receivables.
2. All collection except miscellaneous income and receivables shall be collected through Bank.
3. The duly signed bank credit advice shall be considered as a valid evidence for collections received through a bank.
4. An official receipt shall be prepared and issued for all cash collected, including collection through bank.
5. All cash collected by cashier shall be deposited intact not later than the morning of the following day. No payment for any purpose shall be made from the daily cash collections without first being deposited in the bank account.
6. Post-dated checks shall not be acceptable.
7. If collections are to be received by checks, the checks should be made payable to "the LCF ".
8. All receipts for collection of cash/check should stamped "Received" by the cashier.
9. Receipt must be issued in the name of the person or the organization making the payment.
10. Collection in foreign currency (if any) shall be translated into the local currency at the prevailing foreign exchange rates of the bank as mentioned in the credit advice of the bank.

Procedures

Collections from miscellaneous income, receivables from staff and other sources:

1. The payer is directed to the cashier's office.
2. Cashier receives the cash and prepares "Cash Receipt" in three copies. Distribution of copies of the receipt shall be as follows:
    i. Original to the payer
    ii. First copy to Finance Unit
    iii. Second copy remains with the pad.
3. Cashier deposits the cash/check in the bank account of LCF
4. The deposit slip is to be attached to the first copy of the receipt and shall pass to the Finance Unit.
5. The Finance Unit, after checking the documents shall record the transaction in journal voucher.
6. The Journal entry shall be recorded in the computerized accounting system.
7. Cash balance kept in the office shall keep in appropriate safe or vault.
8. Cash receipt voucher, deposit slip any supporting documents should be attached together.
9. At the close of every working day the account copies of cash receipt voucher issued during the day must be analyzed and summarized by the cashier and handed over to accounts together with deposit slip and other supporting documents.

Collection through bank account

A. Bank Advice of Credit used as source document for collection. The source of fund shall be identified and receipt issued in the name of the payer.
B. Finance Unit records the transaction in the computerized system

12.6 Expenditure

Policy

I. All actual transactions shall be expensed when incurred, supported with the required documents for evidence.

II. All expenses incurred during fiscal year should be recorded with in the fiscal year though they are not paid.

III. All expenses related to grants that are to be ended on or before the end of fiscal year should be accrued before the end of the grant term.

IV. Expenditure shall make sure that grant allowable cost, budget availability, and if it is within the grant period.

12.7 Disbursement

Policy

1. Payments shall be effected by check, bank transfer or out of petty cash.
2. A cash invoice or a receipt shall be obtained for any payment to be made.
3. Cash invoice or receipt that do not quote the amount paid in both "words" and "figures" shall not be accepted as evidence of disbursement made.
4. Payments to anyone shall not be made without authorization by appropriate authority; and any payment shall be effected against appropriate/legal supporting documents.
5. Authorization of disbursement is the responsibility of the Executive Director or his/her delegate.
6. All payments in excess of the petty cash maximum allowable limit shall be effected by checks.
7. No payment by checks shall be made without first making adequate vouching.

8. A check payment voucher shall be prepared for any payment exceeding the petty cash limit.
9. Receipt or cash invoice to be received for payments made, may be written, either in English or the official working language of the government of Ethiopia.
10. Payment to vendor through cashier or purchaser is prohibited.

12.8 Payment of Salary

1. At the end of each month attendance should be summarized by General Service and submitted to the office. The Finance Department prepares payroll for all employees.
2. The Payroll shall be checked by the Finance and Admin Director.
3. The Executive Director approves the payroll and sends it to Finance Unit for preparation of transfer letter.
4. Transfer letter together with the list of Employee send to Bank
5. The Bank transfer the net payment to the employee through their bank account
6. The salary payment transaction is recorded in journal voucher based on the payroll sheet and deposit slip (if any) to clear the advance given to the cashier.

12.9 Payment to Creditors

1. In processing payment to creditors, the Finance and Admin Director/ officer shall check that the appropriate liability documents are compiled.
2. Payment to any creditor shall be made by writing checks
3. Disbursements are to be made only against original invoice and original copies of other necessary documents.

4. The invoice is checked for correctness of terms, prices, extensions, calculations and totals.

12.10 Payment through Bank Transfer

1. Approved and authorized "Bank Transfer Request Form (BTRF)" attached with required source documents shall be submitted to Finance Unit.
2. Finance Unit shall prepare a letter to the bank.
3. Appropriate signatories shall sign the letter.
4. The letter shall be submitted to the bank
5. When the bank debit advice is received, the transaction shall be recorded in Journal Voucher, which, in turn, is recorded in computerized accounting system.

12.11 Petty cash

Policy

1. A petty cash is a revolving advance intended to make cash available for small payments up to maximum of Birr 1,000.00 (Birr One thousand) per transaction.
2. Approved petty cash float is birr 20,000.00 for head office and 5,000.00 birr for site office if applicable;
3. A petty cash fund shall be established only up on recommendation by Finance and Admin Director and approval by the Executive Director or his designated authority.
4. All payments made out of petty cash shall be supported by expenditure receipts.
5. Finance and Admin Director shall recommend the person who acts as petty cash custodian and the Executive Director shall make the approval.
6. The petty cash fund can be replenished when 80% of the fund is utilized.

7. Revision of the petty cash fund can be made at any time either to decrease or increase the limit. Finance and Admin Director shall forward a recommendation for revision for approval by the Executive Director.
8. The petty cash custodian shall be personally liable until release is obtained for settlement.
9. No Checks shall be cashed out of petty cash fund.

Procedure

12.12 Establishment of petty cash

1. Finance and Admin Director initiates the establishment of a petty cash fund by assigning the petty cash custodians and determining the amount of the fund. The proposal shall then be forwarded to Executive Director for approval.
2. Once the request is approved, the Finance Unit is responsible for the establishment of the fund.
3. Fill check payment request form for the amount petty cash fund established.
4. Check payment voucher shall be prepared.
5. A Check for the amount of the approved petty cash fund shall be prepared in the name of the assigned petty casher.
6. The Check is then signed.
7. The Check shall be recorded in the check register.
8. The check payment voucher is recorded in computerized accounting system
9. The Check shall be given to the assigned petty casher.

12.13 Operation of petty cash

1. This procedure applies when the price of the material to be acquired is within the petty cash limit. This will be done by first withdrawing the cash from the petty cashier.

2. Any Department / Section / Employee of the LCF submit signed petty cash payment request form to Finance Unit for Checking.
3. The Executive Director shall approve the request.
4. The purchaser forwards the approved form to the petty cash custodian. The custodian retains the approved form and pays the specified amount to the purchaser against signature.
5. The purchaser shall purchase the items and delivers them to the store.
6. The Store Keeper prepares Goods Receiving Note (GRN). The original copy of GRN shall be sent to Accounts. One copy is given to the purchaser.
7. The purchaser takes the GRN and the invoice to the petty cash custodian for clearance of the cash advance.
8. The petty cash custodian returns petty cash request form to the purchaser and keep the invoice and the GRN with him/her until replenishment.

12.14 Petty cash used to make payment for Expenditures Incurred

1. This procedure applies when a material/service is acquired for an amount within the petty cash limit and management authorized payment to be effected out of petty cash.

2. The petty cash custodian received payment authorization documents from the appropriate authority.

a). Before making disbursement, the petty cash custodian examines the documents to check that the amount is within the petty cash limit and proper authority makes the authorization.

b). The custodian pays the specified money to the payee against signature and keeps the paid documents with him/her until replenishment.

12.15 Petty Cash Replenishment

A). When the balance in the petty cash fund approaches around 20% of the established balance, custodian shall complete a "Petty Cash Replenishment Form".

B) The petty cash custodian shall forward petty cash replenishment form and all expenditure documents to accounts.

C). The expenditure documents and the form shall be examined by the Accounts. Finance and Admin Director shall approve the replenishment by signing on the petty cash replenishment form.

D). Check payment voucher shall be prepared.

E). Check shall be prepared for the total amount of expenditure documents presented by the petty cash custodian.

F). The Check is to be recorded in the check register.

G). The check payment voucher is recorded in computerized accounting system.

H). The Check is then given to the petty cash custodian

12.16 End of Year Procedure to Close the Petty Cash Fund

12.16.1 By the end of each fiscal year the petty cash custodian shall deposit the amount remaining in his/her hands in the LCF's Bank Account.

12.16.2 The petty cash custodian shall prepare petty cash replenishment form for expenditure documents on hand.

12.16.3 Forward expenditure documents, replenishment form and Bank Deposit Slip to the Accounts Office.

12.16.4 Journal entry shall be made to close the petty cash fund.

12.17 Restoration of Petty Cash Fund in the New Fiscal year

For restoring the petty cash fund in the next accounting period, the same procedures laid down for "Establishment of Petty Cash" shall be followed.

12.18 Revision of the Amount of Petty Cash Fund

1. Depending on the amount of petty cash payment transaction, the amount of the fund may be decreased or increased when the need arise.
2. Request for revision shall be made by the petty cash custodian and recommended by Finance and Admin Director.
3. The Executive Director shall approve the recommendation made by the Head of Finance for revision of the petty cash amount.
4. The approved request is sent back to Finance Unit.
5. The petty cash custodian shall deposit the amount remaining in his/her hands in The LCF Bank Account.
6. The petty cash custodian shall prepare petty cash replenishment form for expenditure documents on hand.
7. Forward expenditure documents, replenishment form and Bank Deposit Slip to Accounts Office.
8. Journal entry shall be made to close the petty cash fund.
9. The same procedure laid down for "Establishment of Petty Cash" shall be followed to revise petty cash fund amount.

12.19 Surprise Cash Count: -

A designated accountant of Finance and Admin Director shall conduct a surprise cash count on a regular basis

12.20 Fuel Fund / Fuel Coupon: -

Establishment: The amount of fuel fund shall be determined based on the biweekly average fuel usage by vehicles in LCF. The Finance and Admin Director will determine the total fund amount and the fund limit may be revised periodically when the consumption or price level changes.

Replenishment: A Fuel Coupon Request Form and a Fuel Disbursement Form should be completed and the fuel usage summary for the vehicle should be submitted at the time of replenishment of the fund.

- The cashier takes the custody of the fuel coupons and keeps in a safe and locked place.
- The designated person or the administration assistance shall track the fuel coupon number purchased against the receipt from the oil station and the stub of fuel coupon.
- Issuance of fuel coupons presupposes approval by the administration of LCF.
- The administration shall maintain a register book that indicates the consumption of fuel and mileage per vehicle.
- The replenishment of fuel coupon fund shall be accompanied by the log sheet report of each vehicle consuming fuel, the stub of fuel coupon number, and approval by the LCF Director after checking the report of the HR & Admin director or other delegated officer.

12.21 Cash Advance

Local Travel

Policy

1. Local travel arrangements shall be approved by the head of requesting Department/Unit.
2. The LCF shall pay per-diem as per the rates specified in the Travel policy manual.
3. No travel advance is given without clearing the previous advance.
4. Clearing travel advance within 5 days from the date of arrival.

Procedures

1. Traveler fills "Travel Request and Authorization Form", signs and submits the form to his/her immediate supervisor for recommendation and subsequently to the Executive Director for approval.
2. The endorsed form shall be forwarded to Finance and Admin Director.

3. Finance Unit review the request as per the per diem policy of LCF.
4. Check Payment voucher shall be prepared.
5. Check shall be prepared.
6. The check shall be presented to appropriate signatories for signature.
7. The check shall be recorded in the check register
8. The check payment Voucher shall be posted to computerized accounting system.
9. The check shall be given to the traveler against signature.

Settlement of Per Diem and Travel Advance

1. Traveler completes "Reimbursement of Mission Expense" form, attaches all expense receipts with the form and submits to Accounts.
2. Accounts shall check the validity of the documents presented by the traveler and then undertake either (i) or (ii) below
   - **i.** If there is unused cash balance
   - **ii.** The traveler should pay the unused balance immediately to The LCF cashier against a receipt.
   - **iii.** On the basis of the receipt and the expense documents, the Accounts clear the per diem and travel advance for the traveler.
   - **iv.** If the traveler pays excess amounts

   A. Accounts shall assess the accuracy of the excess amount.

   B. If the overpayment is greater than the petty cash limit, a "Check Payment Request Form" shall be prepared; if the overpayment is within the petty cash limit, a "***Petty Cash Payment Request Form***" shall be prepared.

   C. To effect payment to the traveler, either the check payment procedure or the petty cash payment procedures shall be followed.

12.22 Salary Loan/Advance

Policy

1. Unless under exceptional cases (emergency like Family death, Marriage, Medication etc), salary advance shall not be allowed to employee. Where emergency situation prevails, request for salary advance may be accepted.
2. Salary advance shall be granted only upon approval by the Executive Director.
3. The maximum amount that shall be given as salary advance shall not exceed one month's net salary of the applicant.
4. Any salary advance given shall be collected by deducting the full advance from the employee's monthly salary in the month in which the advance was given.

Procedures

1. The employee shall present a justification for his/her request in writing directly to the Executive Director

2. The Executive Director approves the request and then sends the approved request to Finance Unit.

3. Upon receipt of the approved request, Finance Unit processes the payment as per the check payment procedure.

4. At the end of the month in which the advance is requested, Finance Unit deducts the full advance from salary of the employee in that month.

Work Advance

Policy

1. Work advances given to program or other staff for a specific purpose upon presentation of approved proposals.
2. Work advance request shall indicate the budget source of activity.
3. Work advance shall be recorded as an advance to requesting employee of LCF at the time of collection.
4. Liquidate work advance no later than 5 days after completion of the activities/work.
5. No advance will be granted until the previous advances have been cleared.
6. Clear advance in the life of the grant project (AUSAID, Irish aid, USAID, EU, etc).

Procedure

The same procedures are laid down for "Local Travel" shall be followed for working advance.

12.23 Inventories

Purchasing of Supplies and Stationeries

Policy

1. Inventories of The LCF are basically in the form of supplies and stationeries.
2. Purchase of supplies and stationeries initially recorded as inventories of supplies until it is utilized.
3. Supplies and stationeries of inventories after utilization should be recorded as an expense with an appropriate documents including distribution log
4. The movement of supplies and stationeries items (receipt, issuance and balance) shall be controlled using Bin Cards.
5. Purchase of supplies and stationeries shall be made to cover at least six-month consumption.
6. Attempt must be made to obtain at least three Pro-forma Invoices.

7. Goods Receipt Note shall be prepared for all purchase of supplies and stationeries.

Procedure

1. Store keeper in consultation with administration Unit determines the volume of supplies and stationeries which are required for six months' period and request by filling in "Purchase Request Form" and submits it to Finance and Admin Director or Checking and to the Executive Director for approval.
2. On receipt of authorized purchase requisition, the purchaser shall make the necessary arrangements for the identification of relevant and reliable suppliers.
3. Collect Pro-forma Invoices
4. Comparative evaluation of quotations should be presented in a form of table. Some of the factors that should be considered in the evaluation of quotation include the following:
    i. Product reliability and quality
    ii. Economic Price
    iii. Terms of delivery, time and payment
    iv. Service after sale
    v. Operating & running costs where applicable
5. The quotations made by suppliers should be evaluated and recommended by the purchasing committee.
6. The Executive Director shall approve the purchase on the basis of the information provided by the Purchase committees
7. The approved request shall send to Accountant/ Finance Unit for preparation of check.
8. Payment voucher is prepared
9. Check is prepared in the name of the supplier

10. Check is signed by authorized signatory
11. Check is recorded in the check register.
12. Check is given to the purchaser against signature on check register.
13. The purchaser purchases the items and delivers them to the store and Good Receiving Note shall be prepared. The first copy of GRN shall be sent to Finance Unit. Original copy is given to the purchaser.
14. The purchaser takes the GRN and the supplier invoice to Finance Unit for clearance of the cash advance.
15. Finance Unit shall compare the GRN, supplier Invoice and purchase requisition to check the purchase is made as per specification.
16. Journal Entry shall be prepared to record the transaction.

12.24 Fixed Assets

Policy

1. Any tangible property shall be considered as Capital Assets and recorded as ***Fixed Asset***. When it full fills at least one of the following
   i. The price birr is 5,000.00 and above
   ii. Its useful life of the PPE is more than one year
2. Fixed asset shall be in fixed asset registered leaving the nominal value of ten Birr for each item to be recorded as fixed asset for control purposes. The portion of the depreciated amount is recorded as an expense.
3. Fixed assets acquired through donation/gift where the costs are not disclosed shall be appraised by professional appraiser and the value so determines shall be used as the amount to be recorded as Capital Asset provided that item (1) above is fulfilled.
4. A fixed asset register will be kept listing the details of all assets.
5. Fixed asset shall be recorded at purchase price plus direct costs incurred to bring the assets to the premises of user.
6. Annual inventory of assets shall be carried out to confirm their continued existence and their values.

Classification of fixed assets

Fixed assets are classified as follows:

1. Machinery and Plants
2. Vehicles
3. Motor cycles
4. Computers
5. Office machines and equipment
6. Furniture and fixtures
7. Buildings

12.25 Fixed Asset Acquisition

Policy

1. Fixed assets shall be purchased on the basis of an approved budget.
2. Purchase of fixed asset must be made against fully and properly authorized purchase requisition.
3. Acquisition shall be approved by the Executive Director upon recommended by the procurement committee.
4. Unless the numbers of suppliers are limited, attempt must be made to obtain at least three Pro-forma invoices.
5. Purchase from single vendor is only if and only if the vendor is a unique and up on approval of the Executive Director.
6. Goods receipt note shall be prepared for all fixed assets purchased.
7. All fixed assets should be recorded as Fixed Asset of the item and depreciation expenses are recorded as an expense.

Procedures

1. On receipt of authorized purchase requisition, the purchaser shall make the necessary arrangements for the identification of relevant and reliable suppliers.
2. Collect Pro-forma Invoices
3. Comparative evaluation of quotations should be presented in a form of table. Some of the factors that should be considered in the evaluation of quotation include the following:

i. Product reliability and quality
ii. Economic Price
iii. Terms of delivery, time and payment
iv. Service after sale
v. Operating & running costs where applicable

4. The quotations made by suppliers should be evaluated and recommended by the purchasing committee.
5. The Executive Director shall approve the purchase on the basis of the information provided by the Purchase committees
6. The approved request shall send to Finance unit for preparation of check.
7. Payment voucher is prepared
8. Check is prepared in the name of the supplier
9. Check is signed by authorized signatory
10. Check is recorded in the check register.
11. Check is given to the purchaser against signature on check register.
12. The purchaser purchases the items and delivers them to the store and Good Receiving Note shall be prepared. The first copy of GRN shall be sent to Finance Unit. Original copy is given to the purchaser.
13. The purchaser takes the GRN and the supplier invoice to Finance Unit for clearance of the cash advance.
14. Finance Unit shall compare the GRN, supplier Invoice and purchase requisition to check the purchase is made as per specification
15. Journal Entry shall be prepared to record the transaction.

12.26. Issuance of Fixed Asset

Policy

1. Issue voucher shall be prepared against approved requisition form.
2. The Executive Director shall approve issuance of fixed asset.
3. Issuance of Fixed Asset must be made against properly approved issue voucher.
4. Employee who shall sign the issue voucher is responsible for the asset he/she is using.

Procedures

1. The store keeper shall receive approved goods requisition form
2. Issue voucher shall be prepared in three copies
3. Issue voucher together with requisition form shall be sent to Finance Unit for Checking.
4. The Executive Director approve issue voucher.
5. Approved issue voucher shall be returned to store keeper.
6. Storekeeper delivers the asset against signature on the issue voucher.
7. First copy of issue voucher shall be sent to the requesting employee.
8. Original copy issue voucher shall be sent to Finance Unit.

12.27 Disposal of Fixed Asset

Policy

1. Fixed Assets that are no more useful discarded or sold against the Ethiopian Government Charities Agency and Board approval up on recommendation by the Executive Director.
2. Disposed fixed assets should be removed from Asset Register.

Procedure

1. Requisition shall be made by Finance Unit for disposal of assets.
2. Recommendation shall be made by the Executive Director for disposal of assets.
3. Executive Director request the Charities and Societies Agency, Explain the reason and get consent
4. Board approves the disposal after through discussion on reasons for disposal.
5. Document on which the Board agreed to dispose of assets should be sent to Finance Unit for following actions.
6. Finance and Admin shall process the disposal of assets as per BoD decisions.
7. The Executive Director notifies for the concerned bodies.
8. Finance and Admin removes assets from the registry book.

12.28 Depreciation

1. Requisition shall be made by Finance and Administration Department for disposal of assets.
2. Recommendation shall be made by the Manager for disposal of assets.

3. Board of Directors approves the disposal.
4. Document on which the BoD agreed should be sent to Finance and Administration Department for following actions.
5. Finance and Admin shall process the disposal of assets as per BoD decisions.
6. The Manager notifies for the concerned bodies.
7. Finance and Admin removes assets from the registry book.

12.29 Depreciation

Policy

A). Annual Depreciation of fixed asset shall be determined as per the following rate:

1. Machinery and Plants	20%
2. Vehicles	20%
3. Motor cycles	20%
4. Computers	20%
5. Office machines and equipment	10%
6. Furniture and fixtures	10%
7. Buildings	5%

B). Straight-line method shall be used to calculate the depreciation expense on each capital asset.

12.30 Maintenance of Fixed Assets Register

The LCF shall maintain a register for all its fixed assets. The register shall contain original cost, tag number, location, date of acquisition, supplier's name --- etc.

XIII Financial Record Management

13.1 Record retention

Policy

1. The LCF records that contain financial information or other finance related sensitive information must be labeled as confidential and stored in a manner designed to prevent unauthorized access.
2. Any unauthorized release, removal from the LCF's premises, or inappropriate use of the LCF's records expressly forbidden.
3. Financial records must be retained for business, legal or regulatory purposes as official LCF records.
4. The Financial records shall be kept in archives for a minimum period of 5 years.

13.2 Financial records Disposal

Policy: -Subject to a legal hold, finance records must be appropriately disposed of at the end of their lifecycle.

13.3 Receipt and Vouchers

Policy

1. New receipts or vouchers shall be issued only when the last used pad is returned.
2. All receipts and vouchers shall bear the emblem and name of the LCF.
3. All receipts and vouchers pad shall have sufficient copies to allow distribution to appropriate units.
4. Receipt and voucher pads shall be issued only upon approval by Finance and Admin Director.
5. All receipts or vouchers shall be pre-numbered.
6. Only one new receipt or voucher pad shall be issued as a replacement for the latest used pad.

Printing Receipts and voucher pads

Procedure

1. Whenever the stock of a particular receipt or voucher pad reaches ten copies in number, the pad custodian shall initiate a printing order by filling out purchase requisition.
2. The head of Finance and Administration endorses the requisition and the Executive Director approves the request.
3. The purchaser collects pro-forma invoices from at least three printing houses.
4. Procurement Committee evaluates the pro-forma invoices and recommends a printing house; the Executive Director approves the recommendations.
5. A purchase order shall be sent to the printing house.
6. Printing house delivers the pads to the pad custodian against signature.

Custody of Receipt and Voucher Pads

Procedure

1. Receipt and voucher pads shall be kept in the Finance Unit.
2. Finance and Admin Director shall select a person who will be responsible for keeping the receipt and voucher pads under his/her custody.

Issuance of Receipt or Voucher Pad

Procedure

1. The custodian gets authorization from the Finance and Admin Director for replacement of the used pad.
2. The pad custodian takes the used pad and gives a new pad to the cashier/clerk.
3. The custodian registers the issuance in the register logbook; the cashier/clerk signs in the logbook acknowledging the receipt of a new pad.
4. The custodian files the used pad in sequential order.

13.4 Usage of Receipt and voucher pads

Receipt pads

Procedure

1. All receipts for cash collection shall be prepared in three copies.
2. Any receipt prepared for cash collection shall contain at least the following information
    - i. Date of transaction
    - ii. Purpose of the collection
    - iii. Name of person/ LCF paying the money
    - iv. Amount of collection (in words and figures)
    - v. Signature of the cash collector
3. If an error is made in preparing a receipt, the original and the copies shall be attached together and the word "Cancelled" shall be written on each copies of the receipt.

Payment Voucher (voucher)

1. Payment vouchers shall be prepared in at least two copies.
2. Check that all the required source documents are complete before preparing a voucher.
3. At least, the following information shall be recorded in a voucher:
    - i. Date of transaction
    - ii. Purpose of the payment
    - iii. Name of person/ LCF to whom money shall be paid

Journal Voucher

1. Journal voucher shall be used to record all transaction, which cannot be recorded on Cash Receipt and Cash Disbursement Vouchers.
2. The Journal Voucher shall be permanent record of the LCF.

13.5 General Ledger

Policy

1. The General ledger shall be a collection of individual summaries of all accounts used by the LCF.
2. General ledger shall provide a complete up to date record of financial activities of the LCF.

3. The General ledger shall also be used during preparation of monthly, quarterly and annual statements.
4. General ledger shall be permanent record of financial activities for each a given fiscal year

13.6 End of Fiscal year Procedure

Major closing steps

1. Generate trial balance
2. Journalize adjustments and correcting entries (if any)
3. Generate financial statements
4. Closing the books
5. Generate post-closing trial balance

Closing Procedures

Cut-offs

Communicate external auditors at the end of the year, to establish cut-offs for appropriate source documents and vouchers by identifying the last serial number used. A format shown below can be adopted.

No	Description	Serial Number
1.	Last cash receipt number used	
2.	Last check umber used	
3.	Last store issue voucher used	
4.	Last goods receiving note used	
5.	Last payment voucher used	

Cash Balances

1. Prepare bank reconciliation of the last month for each bank account and
   - Determine the date and complete description of each reconciling item.
   - Pass any journal entry for corrections or adjustments.
2. Summarize cash balances for all bank accounts in a summary.

3. Obtain all expenditure documents of petty cash for the last month of the fiscal year. Record the transaction. Terminate the petty cash fund by transferring the remaining balance in the fund to the checking account.
4. Prepare summary amounts of cash at bank. Reconcile the total with the general ledger accounts. The total must reconcile.

Receivables

1. Generate schedule of receivables.
2. Reconcile the totals of the schedule with the general ledger accounts.
3. Prepare an ageing of receivables to determine uncollectable accounts and recommend for write-offs (if any).

Inventory

1. Conduct physical count of all items on hand not used during the year.
2. Inventory count sheet shall be sign by counter and checker.

Accruals

Prepare a summary of accrued income and/or accrued expense, if any.

Fixed Assets

1. Reconcile the fixed asset items in the subsidiary ledger to the fixed asset account in the general ledger.
2. Determine depreciation for each fixed asset using the depreciation rate.
3. Conduct physical count of all fixed asset items at the end of the fiscal year.

Prepaid Expenses

Determine expired or unexpired amount of prepayments, if any.

Payroll

Determine any uncollected salary at the end of the year and transfer them to a liability account.

Adjustments

Compile the adjustment items and journalize. Adjustments could be for:

- Doubtful accounts and write-offs.
- Depreciation of fixed assets.
- Prepayments (recording expired prepayments).
- Accrued Income / receivables.
- Accrued Expenses / payables.
- Uncollected salaries (transfer to a liability account).

XIV. OTHER FINANCIAL MATTERS

14.1 Prepayments

Policy

1. Payment in advance for specific purpose or agreement that will be charged to expenses when it is due according to the terms of agreement or when the purpose paid for is fulfilled.
2. The LCF shall pay prepayment for rent, insurance and others depending on importance.
3. Prepayment initially recorded as an asset and amortized over the period of time stimulated in the agreement.
4. Determine the amortized part of the prepayment and recorded as an expense at the end of fiscal year
5. The Finance Unit shall handle insurance purchase and follow up.

14.2 Income Tax

Policy

1. The balance deducted from every month's payroll, and any labor wages as per applicable Government tax regulation, shall be recorded to income tax payable account with in the month the payroll will be paid.
2. Settlement to concerned tax authority shall be made within one month after collection of the tax.
3. Taxes deducted from project areas outside Addis Ababa shall be paid to the respective Regional Finance Bureau.
4. The **LCF** will not be liable for any penalty for not paid within regulated time period. The responsibility will lie on the person assigned to follow this.

Withholding tax

Policy

1. The LCF has the legal obligation to withhold taxes on procurement of goods and services as per proclamation # 286/2002.
2. For every deduction from concerned payments shall be recorded to withholding tax payable account.
3. The **LCF** shall issue preprinted withholding tax receipt voucher according to the proclamation.
4. The **LCF** shall settle amount collected in ten days from the end of collection month to the concerned tax authority.
5. The **LCF** will not be liable for any penalty for not paid within regulated time period. The responsibility will lie on the person assigned to follow this.

14.3 Provident Fund/Pension Contribution

Policy

1. Provident Fund or Pension Contribution liability balance shall represent amount reflected on staff payroll for entitled staff per Human Resource and Development Policy and Proclamation No. 715/2011respectively.
2. Basic salary of an employee shall be subject to 10% employees' contribution and 14% contribution from the LCF and out of which employees' pension fund will be deposited as per Private Employees' Pension Proclamation No. 715/2011.
3. Finance Unit shall record monthly transaction in "Provident Fund Payable Account or Pension Contribution Payable Account" as the case may be.
4. Withholding provident fund shall be transferred to bank account of depositing agency on a monthly basis.
5. Withholding pension contribution shall be deposited to the concerned Tax Authority appointed by the Agency on a monthly basis.
6. Terminated employees will collect their provident fund and pension contribution as prescribed in Human Resources Manual and the Private LCF Employee Pension Proclamation respectively.

7. The LCF will not be liable for any penalty for not paid within regulated time period. The responsibility will lie on the person assigned to follow this.

14.4 Accruals

Policy

1. Accruals are type of liability that shall be held for all committed goods and services received from a specific fund with in a specific period of time, and will be paid subsequent to the end of the fiscal year or grant period.
2. The type of items that needs to be considered for accruals are: cost of goods received but not paid and cost of services rendered but not paid.
3. Costs to be accrued shall have reliable evidences to support the reasonability of the amount to be accrued.
4. Some costs of commitments might be estimates, which has to be reasonable not to exceed or less from actual, also should be supported by reliable documents.
5. Accruals shall be cleared within two months after the close of the period or end of grant period, unless otherwise shall have justifiable reason for delay on settlement.
6. All concerned program staffs are responsible to identify fiscal year and report timely all unpaid commitments and Finance Unit has the responsibility to record all commitments outstanding against the ending grant by securing all the necessary documentation.

14.5 Severance

1. Severance represents accruals or reserves made every month representing staff termination pay.
2. The LCF shall accumulate all staff termination benefits as a liability by deducting the amount from all funds that staff effort shall be reported at the end of every fiscal year.
3. Finance Unit shall make computation of each staff termination fee entitlements at the end of the fiscal year according to personnel policy to update the liability to every staff entitled and to charge portion of each grant during the life of the grant according to payroll code of the staff.

4. The accumulated severance pay shall be transferred to the bank account designated for this purpose on a yearly basis.
5. The accumulated fund will be cleared when individual staff terminated or resigned.

XV. FINANCIAL REPORTING

15.1 Report regularly on schedule.

1. Monthly report to Donors, using the reporting format described by each donor
2. Quarterly report to Donors, using the reporting format described by each donor

Annual Report

1. Income and Expenditure statements
2. Balance Sheet
3. Cash Flow Statement
4. Annual Financial report to concerned Government office
5. Annual report to Donors, using the reporting format described by each donor

15.2 External Audit

Policy

A). Annual statutory audit shall be carried out for every fiscal year within three months after the end of the fiscal year.

B). Finance Unit shall be responsible for audit of the accounting records and the annual financial statements of the LCF as required by the Government Offices and Donors.

C). Legally authorized independent auditors shall conduct the audit.

D). Auditors will be selected through bid computation and will serve for three consecutive years as required by the Ethiopian Government. After three years another selection process shall be made based on the requirement.

E). The LCF shall be responsible to get separate audit if the grant donors so require.

F). Draft financial statements first approved by the Executive Director before submitted to external auditors.

Procedures

1. The Finance Unit shall make ready the final trial balance and financial statements in due time for external auditors

2. The Finance Unit shall make available the necessary source documents, records and statements to the external auditors for vouching and audit work.

3. Make available to the external auditor's bank reconciliation of the fiscal year. The bank reconciliation shall be for each and every bank account maintained by the LCF.

4. Provide any other financial and other relevant documents which the external auditors request for the purpose of their audit.

5. Finally, management of the LCF receives a draft audit report from the external auditors.

6. The management discusses on draft report.

7. Board receives the final audit report through the Executive Director.

8. The Board reviews and approves the auditor's report.

15.3 Fiscal year: -

The fiscal year of The LCF shall be from July 7 to July 08

XVI. BUDGET

A Budget is a comprehensive financial plan setting forth the details for how resources will be allocated to achieve the goals of the Organization.

Budget is used:

1. Enhancing Executive Directorial Perspective - In preparing a budget all aspects of internal activities and future economic and other conditions must be considered.

2. Advance warning of problems - Since the budget shows the expected results of future operations, management is forewarned of financial problems.
3. Coordinating activities - Provides management with an opportunity to coordinate the activities of the various departments within the business.
4. Monitoring Performance - The budget is one tool by which each unit or project's actual performance may be measured. Periodically comparing budget to actual, can highlight good, and "not so good" performance, so timely corrective action can be taken.

Annual budget of the LCF includes the expected income and expenditure by line items that are going to be received and expended during the budget year.

The elements of budget are revenue, operational expenditure, capital expenditure and administrative expenses.

All cost centers are responsible for preparing annual budgets for their own Departments or cost centers.

The revenue budget shall take all current and anticipated situations like currency fluctuations, inflation of cost and the like in to consideration and provisions should be made to the best possible. After preparation of the budget a recommended revised budget should be sent to the donors at the earliest possible time in order to obtain approval implementation.

16.1 Budget Administration

- All budget operations have to follow the dates set for preparation, submission and allocation.
- Budget proposals have to be detailed as much as possible and justifications have to be attached wherever possible and needed.
- Transfer of budget from one category to another is prohibited unless prior approval is obtained.
- Budget savings cannot be used unless prior authorization for the fund is obtained.
- Budget proposals should be submitted only using the standard formats. And in preparing budgets, expenditure category and classifications must be followed.
- Efficient usage of approved budget is recommended and encouraged.

- Quarterly and annual budget reports should be provided to the management.

16.2 The Budget Process

Overview

- ✓ The Charitable Society prepares short term and long-term plan of operation. The long term plan is mainly for activity for 5 years (ASP), and the short term plan is for a year (AOP), both activity and financial plan of operation for every coming year.
- ✓ The planning process for LCF, called the Annual Operational Plan (AOP), integrates programmatic and financial objectives in detail for the next year and at a more summery level (Core Programming) for ASP.
- ✓ As a planning document, a budget enables LCF to set priorities in the allocation of scarce financial resources and monitor progress toward selected goals.
- ✓ As an entity, LCF will have a consolidated budget for one fiscal year. In addition to the overall budget, each project agreements with a Donor incorporates budget of expenditure and income over the life of the project.
- ✓ Budget is assumed being approved when LCF designated person and the Donors agrees and signed for endorsement.
- ✓ The annual budget has to be entered into the Computerized Accounting System. Once the budget entered into the system, it is possible to manipulate the system to generate reports like budget utilization by Donor and program.
- ✓ AOP includes estimates of total ***income and expense***, including depreciation, for the next fiscal year.
- ✓ The capital budget includes the estimated total ***purchase cost*** of assets an LCF is requesting approval to purchase in the next fiscal year. Accounting standards dictate that the total cost of these assets cannot be recorded as expense in the year they are purchased, but that the cost must be allocated as depreciation expense over the estimated useful lives of the assets. Therefore, only that depreciation expense representing the portion of the estimated useful lives that will occur during the fiscal year being budgeted will be included in the operating budget for that year.

The balance of the cost of the asset(s) will be expensed, or depreciated, over the remaining estimated useful lives of the assets.

16.3 Budget preparation

Annual Operation Budget for the coming year shall be prepared and submitted on June 1 of the current year to the respective donor. The Approval process shall be finalized by the donor and returned to the organization/ Charitable Society on June30 of the current year. The Charitable Society shall submit to Government and agreement shall be finalized before the end of June 30 of current year.

- The budget consists of mainly:

1. Budget of grants or contributions already committed or being used.
2. Overhead budget, detailed by expenditure line items,
3. Detail of staff expected to be working in the coming year, their expected salary and benefits, and source of funding that there salary and benefits or other entitlements to be covered from.
4. Percentage of utilization for each source of funding, by month or by quarter as demanded by Charitable Society.

- The Charitable Society Finance Unit is responsible and taking the lead for preparation of annual financial operation plan (AOP).
- The budget revision shall be done at most once a year. Actual status shall be reflected in budget revision in order to forecast the remaining fund balance.
- Budget should be prepared with the particular LCF of all departments of Charitable Society.
- The program Department together with department and section heads is responsible to prepare the draft annual program budget of the Charitable Society and submit to the management committee for approval.
- Monitoring and Evaluation Department/unit is responsible for the consolidation of the annual budget.
- Budgets for programs are prepared by the program department in consultation with the finance section. The expenditure details should align with the standard object of expenditures used by Finance section.
- The budget required for acquisition of materials, personnel, and services must be broken down by unit and amount. The budget must reflect the

different project activities planned under separate headings. It should be subdivided into the LCF's different activities, and different categories of expenditure.

- Budget data entry is generally a one time job at the beginning of the fiscal year, with minor modification at the time of budget revision.
- Financial budget is a result of activity budget. Each activity will be expressed in terms of money (unit quantity of each activities must be by LCF lied by he estimated rate).
- Budget data are gathered with using a Budget Data Collection Sheet.
- The concerned department head will part ice LCF rate and defend his/her proposed budget during the review by the budget committee. Once the budget review completed the revision it will be discussed by the management. Finally the budget will pass to the approval.

Budget preparation procedure

- Finance and Admin Director is responsible for the preparation of annual financial operational plan (AOP).
- The budget revision shall be done at most twice a year. Actual status shall be reflected in budget revision in order to forecast the remaining fund balance.
- Budget should be prepared with the parotic LCF action of all Departments.
- The program Department together with other Department and section is responsible to prepare the draft annual program budget of The **LCF** and submit to the management committee for approval
- Monitoring and Evaluation Department is responsible for the consolidation of the annual budget.
- Budgets for programs are prepared by the program Head in consultation with the finance section. The expenditure details should align with the standard object of expenditures used by Finance section.

- The budget required for acquisition of materials, personnel, and services must be broken down by unit and amount. The budget must reflect the different project activities planned under separate headings. It should be subdivided into the LCF's different activities, and different categories of expenditure.
- Budget data entry is generally a one time job at the beginning of the fiscal year, with minor modification at the time of budget revision.
- Financial budget is a result of activity budget. Each activity will be expressed in terms of money (unit quantity of each activities multiplied by he estimated rate).
- Budget data are gathered with using a Budget Data Collection Sheet.
- The concerned Department head will participate and defend his/her proposed budget during the review by the budget committee. Once the budget review completed the revision it will be discussed by the management in the presence of the Executive Director. Finally the budget will pass to the approval.

16.4 *Budget control and Reporting*

- Actual performance of expenditures must be regularly monitored with budget and the reasons for significant variances identified so that appropriate action will be taken to restore or enhance cost effectiveness.
- Finance section is responsible for ensuring that all disbursements are according to the budget and no expenditure is made without budget support.
- The periodic comparison between the budget and the actual expenditure will be more meaningful if non-financial activity performance report (Report to be presented by the department for the execution of programs) is being compared together. Each department should compile such activity budget reports and compare it with the related financial report and submit to the Program Department for appropriate action.
- Financial budget utilization and physical performance ratios allow management to judge whether the program is functioning properly or not

by highlighting problems clearly. Ratios give an objective basis for evaluations and thus provide a more professional approach to management as part of the early warning system to enable management to be rather than merely reactive.

- Budgetary control reports (budget Vs actual reports: by Donor and program) are to be prepared by accountant and approved by Finance Executive Director.
- Management information should be submitted in a timely basis; otherwise, remedial action cannot be effected before it is too late or costly. It is therefore essential that the Finance section prepares and submits the monthly and quarterly budgetary control reports within two weeks from end of month and quarter.
- Budget Utilization reports should be designed in the Computerized Accounting System in such a way that budget analysis reports could be generated by Donor and program on a quarterly and yearly basis.
- Budget variations for restricted project budget should be approved by the Donor before effecting expenditures which could result unfavorable variances.
- Budget variations within 10% range by major line items should be approved by the Donor. Disbursement request which affect the budget in excess of 10% of the budgeted amount shall be brought to the attention of the Donor for approval.
- Budget transfer from one line item to another budget line item with in a Program shall be made when necessary with the approval of the Donor.
- Budget transfer from one budget line item in one Program to another Program shall not accept.

16.5 Budget Revision.

LCF will exercise the budget revision once in by-annual.

Love For Children & Family Development Organization

XI. COST SHARE

- Cost sharing/matching is a required contribution by the awardees from other donor sources toward the total cost of the program.
- Either in cash or in-kind, usually described as a percentage of total award costs.

- In-kind contributions can include volunteer or contributed services, contributed property, donated supplies and/or other community contributions.
- In-kind contributions may be in the form of charges for real property and non-expendable personal property, and the value of goods and services directly benefiting and specifically identifiable to the project or program.
- The contributions' value is based on fair market value in the local market.
- Cost share should always be documented and should be relevant to grant activities.
- The determination as to the requirement for a level of cost sharing/matching is the responsibility of the donor.
- All contributions, both cash and in-kind, shall be accepted as part of the cost sharing and matching when such contributions meet all of the following:
  1. Are verifiable from the records;
  2. Are not included as contributions for any other program;
  3. Are necessary and reasonable for proper and efficient accomplishment of project objectives;
  4. Are types of charges that would be allowable under the applicable cost princes;
  5. Are provided for in the approved budget.
- Volunteer services:
  1. Volunteer services may be furnished by professional and technical personnel, consultants, and other skilled and unskilled labor.
  2. Volunteer services may be counted as cost sharing or matching if the service is an integral and necessary part of an approved program.
  3. Rates for volunteer services:
     i. Rates for volunteers should be consistent with those paid for similar work in the organization.
     ii. In those instances, in which the required skills are not found in the organization, rates should be consistent with those paid

for similar work in the labor market in which the competes for the kind of services involved.

- Volunteers employed by other organizations - When an employer other than the furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (exclusive of fringe benefits and overhead costs) provided these services are in the same skill for which the employee is normally paid.
- Donated expendable personal property:
  1. Donated expendable personal property includes such items as expendable, office supplies, laboratory supplies or workshop and classroom supplies.
  2. Value assessed to expendable personal property included in matching share should be reasonable and should not exceed the market value of the property at the time of the donation.
- Donated non-expendable personal property, buildings, and land or use thereof - The method used for charging cost sharing or matching for donated non- expendable personal property, buildings and land may differ according to the purpose of the award or agreement as follows:
  1. If the purpose of the award or agreement is to assist the acquisition of equipment, buildings or land, the total value of the donated property may be claimed as cost sharing or matching.
  2. If the purpose of the award or agreement is to support activities that require the use of equipment, buildings, or land, depreciation or use charges for equipment and buildings may be made, the full value of equipment or other capital assets and fair rental charges for land may be allowed.
- The value of donated property will be determined in accordance with the usual accounting policies of the with the following qualifications:
  1. ***Land and buildings:*** The value of donated land and buildings may not exceed its fair market value, at the time of donation to the established by an independent appraiser; e.g., certified real property appraiser, and certified by a responsible official of the Organization.

2. ***Non-expendable personal property:*** The value of donated non-expendable personal property shall not exceed the fair market value of equipment and property of the same age and condition at the time of donation.
3. ***Use of space:*** The value of donated space shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately owned building in the same locality.
4. ***Loaned equipment:*** The value of loaned equipment shall not exceed its fair rental value.
5. The following requirements pertain to the supporting records for in-kind contributions.
    i. Volunteer services must be documented and, to the extent feasible, supported by the same methods used by the employees.
    ii. The basis for determining the valuation for personal services, material, equipment, buildings and land must be documented.

- Review of Cost-Sharing Schedule
    1. The review should determine whether cost-sharing contributions were provided and accounted for by the in accordance with the terms of the agreements,
    2. Check whether the cost-sharing schedule is fairly presented in accordance with the basis of accounting used by the to prepare the schedule.
    3. The review will question all cost-sharing contributions that are either ineligible or unsupported costs.

XII. CHART OF ACCOUNTS

17.1 Definition

The chart of accounts is a list of the classification and coding ledger accounts by the groups they belong to in the balance sheet and the revenue and expenditure statement.

The maximum benefit one can get from an accounting system depends on the careful design of the chart of accounts and customization of the report

formats. The chart of account is the most important list. It is a list of accounts that can be used to track how much money an organization has, how much it owes, how much money is coming in and how much is going out. It also shows from where income is coming, where it is put, and what the expense are for. The way the chart of accounts is set determines how the income statement and balance sheet reports look and what information they contain.

The chart of accounts is therefore, the coding structure established by the LCF to capture information at the time a financial transaction shall be recorded.

The Chart of accounts for the LCF, as a not for profit agency, shall provide information that adheres to various accounting standards, meets the requirements of the regulatory agencies and complies with the reporting obligations contained in the various grant agreements.

Chart of Account- assigns codes to the assets; liabilities fund balances, revenues, costs and expenses of the LCF.

1. Accounts in the ledger are customarily listed in the order in which they appear in financial statements and classified according to common characteristics.
2. LCF Balance sheet accounts are classified as Assets, Liabilities and Fund Balance.
3. The LCF Revenues and Expenditure Statement classified as Revenue, Program cost, and administration Expense.
4. All transactions include a 4-digit account code that identifies the assets, liabilities, Fund balance, Revenue, Cost and Expenses. The first digit of the account identifies the type of account.
5. The representation of the accounts are identified as follow:

- Assets 1
- Liabilities 2
- Fund Balance 3
- Revenue 4
- Cost – Program/Project 5

- Expenses 6

Assets- are properties owned by the LCF. The asset component of the balance sheet are cash/bank, account receivable, stock, goods in transit, fixed assets and other noncurrent assets.

Liabilities- are those groups of accounts that are owned to their parties. They are classified as current, long term and deferred liabilities.

Fund balance- represents the accumulated balance of difference between revenues and expenditures i.e. balance brought forward and results of current year operations.

Revenues- constitute grants, donations, contributions, other income, donation in kind and free services to achieve the objective.

Costs - Constitute the group of expenditure accounts where funds are utilized directly for their intended project/program objectives.

Administration expenses- Constitute the group of expense accounts where funds are utilized to support indirectly project/program objectives.

Taking the reporting requirement of the LCF and the possibility of computerizing accounting systems, the chart of accounts given as annex to this manual has been developed. The following is the general structure of the chart.

Account No	***Donor No***	***Program/ Project No***	***Activity No***
0000	***00***	***00***	***00***

When one donor supports more than one project that donor's ID could be repeated but each project will take different project numbers. This enables to summarize the costs and expenses by each project.

ANNEXES

Different Financial Format are annexed

Account: A personal or impersonal record of one or more business transactions to enable a balance to be determined at any moment in time.

them.

Auditor: A duly qualified person who conducts the audit.

Balance (noun): The net difference between the debit and credit sides on an account.

Balance (verb): To total the debits and credits in a ledger account and to enter, as a balance, the difference between the two.

Balancing the books: The periodical closing up and adjusting of all accounts in the ledger, in order to ascertain the profit or loss made during the period under consideration.

Bank reconciliation: A statement explaining the difference between the balance of an account reported by a bank by way of a bank statement and the general ledger balance (see reconciliation statement).

Books of Accounts: A set of books, which record the business transactions of a firm, company, entity etc (see bookkeeping).

Bought Ledger: A book of account, which records the personal side of all credit purchases of goods or services.

Cash Book: A book in which an account (record) is kept of all receipts and payments of money, by cash or cheque.

Cast (verb): To add up a column of figures.

Contra: The matching of debits with credits or the offsetting of one balance against the other.

Credit (noun): An entry on the right hand side of a ledger account.

Current Assets: That group of assets in cash or near cash state (e.g. Cash, debtors, stock).

Accountancy: The process of analyzing, classifying and recording transactions and operations in terms of time, quantity and monetary values.

Accounting Period: The period for which final accounts are customarily prepared.

Accounting System: The day-to-day method by which transactions are recorded and ultimately appear in the financial statements.

Accrual: The accounting treatment of a transaction whose actual value can only be ascertained after the close of an accounting period, where all or part of the transaction relates to that accounting period, such a transaction is brought into books of accounts by 'accruing'.

Advice Note: accompanying the delivery of goods or services ordered (sometimes known as dispatch or delivery note).

Age Analysis: Usually used on a schedule of Sales Ledger balances to indicate the age of the balance (e.g. one month old, two months, over six months, etc)

Amortization: The writing off against profits of the loss in value of certain fixed or intangible assets where such loss is occasioned by the passage of time e.g. Leasehold property (see Depreciation).

Analyze: The process of classifying and aggregating similar types of transaction under common headings.

Asset: Goods, resources and property of all kinds belonging to a company or to an individual, which are used in the business.

Audit: An examination by an independent, qualified expert (the auditor) of the accounts and supporting records prepared by a company's management and the accounting principles and policies underlying

Compassion: We truly care about the vulnerable children we serve and have a strong desire to relate to their experience and improve their lives. We put their needs first in all we do and need to treat each other with care and consideration.

Commitment: We are deeply dedicated to helping vulnerable children and families that demonstrate inclusiveness and diversity to achieve their goals by establishing accountability and transparency in our works. Everyone associated with the organization is driven first and foremost to improving the experience of clients.

Collaboration: We believe we can produce better results collectively - by working as a team and by joining with others governmental and non-governmental organizations in the community who can support and advance our work.

Communication: we believe frequent, open & honest communication builds trust & a basis for creating good relationships with in / out of our working environment.

Debit (Noun): An entry on the left hand side of a ledger account.

Debit (Verb): To 'debit' an account to make an entry on the left hand side.

Debit Note: Document sent to a person, company etc. stating that his account is debited (increased) with the amount stated (e.g. as a result of price hikes, or invoice initially under cast)

Debtor: One who owes money for goods, services supplied.

Depreciation: The measure of the estimated loss in money value of a fixed asset owing to use, obsolescence or passage of time (see Amortization).

Discount: An allowance deducted from an invoice price, account etc.

Double entry: Method of book-keeping in which two entries are made debit and credit for each transaction in order to record the two aspects which every transaction has and to provide a means of providing the entries by balancing the ledgers in which each transaction is recorded.

Excellence: We are dedicated to achieving the highest level of service. Everyone excels in whatever role they play in achieving our mission and believe that our volunteers and employees are our strength.

Entry: The record of a transaction in a book of account.

Final Accounts: The Profit and Loss Account and Balance Sheet as agreed by the proprietor of the Organization.

Fixed Asset: An asset which is in permanent use within a business (e.g. Land, Buildings, furniture, plant, machinery, etc)

Gross: A total before any deductions.

Humanity: our need to treat each other with compassion, care and consideration because our children learn as much by our actions as by our words.

Innovation: We are consistently learning, growing and looking for ways to more effectively serve vulnerable children. We adapt our programs to meet the changing needs of the community.

Impersonal Accounts: Accounts not dealing with persons but with other things such as 'real or property accounts' (e.g. Cash, rates, discounts, etc).

Imprest: System Method by which a fixed amount is advanced and the expenditure for the amount at the end of the month or period reimbursed, so that the monthly or periodic balance remains the same. Frequently used for petty cash floats.

Intangible Assets: Asset, which is neither fixed nor current yet, possesses a value (e.g. Goodwill, Investment).

Inventory: The Stock-in-trade and work in progress of a business.

Invoice: A document showing the character, quantity, price, terms, nature of delivery and other particulars of goods sold or services rendered.

Journal Ledger: Literally, the book containing an account of each day's transactions.

Ledger accounts: A record in the ledger showing one of the two aspects of each transaction or group of transactions (see also 'Account').

Liabilities: A term denoting the combined debts owed by a firm, company etc.

Liquidity: The excess of cash or near cash assets over current liabilities.

Materiality: The consideration of the significance of an amount in relation to the context in which it is placed. In relation to accounts, an amount is not material if its effect on the accounts would not distort the overall truth and fairness of the view they give.

Net: The amount of any charge or cost after all deductions has been made.

Personal Account: An Account showing transactions with a particular person, firm or company as distinct from a nominal account.

Petty Cash Book: A book subsidiary to the Cashbook, in which are recorded all small cash payments.

Posting: The transfer of entries from the books of prime entry to their separate accounts in the ledgers.

Prepayment: A payment made in the current accounting period of which part or all relates to a future period.

Provisions Amounts: written off or retained out of profits to provide for depreciation, renewals or diminution in value of assets, or retained to provide for any known liability of which the amount cannot presently be determined with accuracy.

Respect: We respect the values, norms, traditions and cultures of the society where we work in and use it as a means to achieve our mission and vision.

Reconciliation: A statement showing the process whereby the balances of two accounts, independently written up in respect of the same transactions, which show an apparent discrepancy, are brought into agreement. The most common reconciliation statement is that used to bring into agreement with the General Ledger Bank account balance and Bank Statement balance (see "bank reconciliation").

Reconcile (verb): To ascertain the precise components of the difference between two related figures produced independently of each other.

Revenue: Income received from any source.

A. The source documents used to record transaction shall be:

Expense Claim: **-**

A/ Procurement of Goods

- Purchase Request (PR)
- Copy of newspaper advertisement(when applicable)
- Letter of invitation
- Bid Analysis (if needed)
- Approved payment Request
- Approved Vendor List, if applicable
- Purchase Order
- Goods Receiving Note (GRN)
- Official Cash Invoice or Cash Receipt

B/ Travels (International / Domestic)

- Official Cash Invoice /Receipt
- Approved Payment Request
- Travel Invoices (hotel, taxi,)
- Copy of ticket and original boarding passes
- Travel Authorization Request (TAR)
- Invitation letter and other necessary document(s)(Work shop, Visit, etc)
- Travel expense report

C/ Training/work shop/seminar

- Official Invoice
- Proposal or Plan for training
- Invitation/Correspondence letters
- Guarantee Letter from Administration
- List participant for training (Attendance)

D/ Electricity, Water, Telephone

- Official Invoice
- Telephone - memo / list from admin

E/ Maintenance

- Service Request
- Quotation
- Copy of Bid Analysis
- Invoice
- Contract agreement
- Work order

F/ Procurement of Services

- Approved Payment Request
- Service requisition
- Contract agreement
- Quotation - at least from three consultants
- Accomplishment report (Confirmation of services)
- Bid analysis (Comparison form)
- Service order

G/ Parcel / Postage

- Official Invoice
- Courier service request form
- Waybill
- Work Order (PO)

H/ Taxi

- Taxi request form
- Invoice

I/ Construction

- Construction Requisition
- Specification and approved construction design
- Bid Document
- Contract Agreement
- Approved payment request
- Certificate of payment
- Work Measurement
- Previous certificate of payment
- Hand over document

J/ Hiring Vehicle

- Service Request
- Quotation
- Approved payment request
- Vehicle duty form
- Travel log sheet
- Contract Agreement
- Vehicle request

Cash Advance Request: -

A/ Travel

- Approved Travel Advance Request
- Travel Authorization Request
- Previous advance clearance form
- Invitation letter/Letter of intent – International travel

B/ Work advance

- Approved Cash Advance Form
- Estimated / breakdown of cost, for advance payment
- Work order/Purchase request

C/ <u>Training / Seminar / Workshop</u>

- Approved Cash Advance Form
- Budget breakdown on activity - hotel reservation, per diem, material, etc
- Invitation, if applicable
- Proposal or plan for training
- Correspondence

Accruals concept: Accruals basis records expenditure and revenue when they become due (i.e. in many cases before the associated cash flows take place). Before it records assets and liabilities and therefore involves with provision of depreciation on assets with finite lives and production of balance sheets.

Matching Concept: Is based on the assumption that period costs are expensed as incurred and matched against related revenue in the appropriate period.
Recognition Concept Is based on the assumption that revenue is recognized when the earnings process is virtually complete and an exchange transaction has occurred.
Historical Cost Concept: Is based on the assumption that GAAP normally requires assets and liabilities to be accounted for and reported on the basis of acquisition price.
Stable Money Concept: Is based on the assumption that the monetary unit is relevant, simple, universally available, understandable, and useful.
Going Concern Concept: Is based on the assumption that the business enterprise should have a long life.
Materiality Concept: Is based on the assumption that an item is material if its inclusion or omission would influence or change the judgment of a reasonable person in his/her review of financial statements.

Cost/Benefit Concept: Is based on the assumption that the costs of providing information must be weighed against the benefits that can be derived from using that information.

Flexibility: The accounting policies and procedures must undergo regular review and revision when changes in corporate policy or governing accounting principles deem it appropriate.

