



African Relief Committee



(ARC)

FINANCIAL POLICY

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1. INTRODUCTION

African Relief Committee (ARC) funded in 2016 to help Internally Displaced Person (IDPs) and vulnerable women and children affected by arm conflict in Darfur. Was Registered by Humanitarian Aid Commission in East Darfur (Eddaein) in January 2016 as a National

Nongovernment Organization (NNGOS), Non-profitable, Non- Religious and Non Political organization following the principles of the International Humanitarian law and international Human rights.

Mission

Sudan aid hand works to save live , defeat poverty and achieve social justice with our development partners ..

Vision

We seek world of hope , inclusion , social justice , where poverty had been over come and all people live with dignity and security.

The management of **ARC** believes in effective utilization of available resources, transparency, and the establishment of a verifiable system. It is against this background the **ARC** develop this financial manual a significant portion of this financial manual is adopted from the experience of other indigenous and international NGOs More over standard accounting principles and financial procedures are also taken into consideration This manual is prepared in such a way that the finance department of **ARC** and its projects will be able to handle all financial activates of the organization in accordance with the policies and procedures laid down cash collection handling, and payment procedures are discussed in detail

Essences for the occurrences of claims due to or against the development organization, the way in which fixed assets are treated and the procedures to account for fund balance are also described in brief but to the point. Sources and kinds of revenue. Types of expenditure and procedures to record and report are also covered. Furthermore, issues related to budget, types of financial reports expected to be produced by the finance department and the detail duties and responsibilities of the unit are dealt the in depth. The chart of account required to handle the financial and other transactions are developed and the necessary formats standardized and annexed to the manual. The most important aspect of the application of this manual is to strengthen the financial procedures to the required standards and to put applicable systems in place. Moreover, **ARC** and its projects should have qualified and experienced personnel in sufficient number so that the minimum requirement of good internal control systems met. This manual will be implemented only when the executive Board of **ARC** agrees to its implementation. Also any subsequent in any of the elements of this manual have to be endorsed by the Board of **ARC**.

2 Objectives of the manual

The general objectives of this manual is to enable **ARC** and its projects prepare up to date financial statements, and reports, put in place effective internal control systems and exercise proper control over its resources, while the specific objectives could be defined as follows

To enable **ARC** head office and its projects to systematically manage donor grants, and record assets, liabilities, funds, revenue and expenditures;

to enable establish proper internal control system,

to strengthen the accounting system,

to meet conditions that enhance the timely production of management information system and

To make **ARC's** including its projects financial reporting method more conventional timely and transparent.

3.FIANCIAL AND ACCOUNTING POLICES

3.1. Accounting Base

The accounting bases of **ARC** are the modified cash of accounting

3.2. Accounting system

ARC's accounting activities are undertaken at the head office level. The head office handles a office as actions related to its activities and projects activities. Therefore, it is the centralized accounting system which is adopted by **ARC**.

3.3. Accounting rules

ARC follows the rule of generally accepted accounting principles

3.4 fiscal year

The fiscal year of **ARC** runs from January 1 to Dec 30 of each year.

3.5 cash and cheque receipt

Its official receipt shall acknowledge all receipts of **ARC**.

3.6 PAYMENTS

All payments of **ARC** shall be effected by cheque unless the amount involved is so small that writing a cheque will not be necessary. Under the circumstance, payment will be effected from the impress petty cash fund. A one- time maximum payment to be made out of the petty cash fund will not exceed Dollar 1,000 .00

3.7 size of the petty cash fund

The size of **ARC**'s petty cash fund is set at Dollar 1,000 .00. This amount shall not be altered unless authorized by the Board of **ARC**. The fund shall be replenished when 75% is utilized.

3.8. Document maintenance and preservation

a. Utilized financial document

All used financial documents should be kept under the custodianship of the finance department. Retention and destruction of audited financial documents should be made in consultation with the contemporary rules and regulations of the government.

b. Unutilized financial documents

All unused financial receipts and formats of **ARC** should always be kept under key and lock in a safest place. Finance department is responsible for the upkeep of these documents. Issued one has been properly and fully utilized. Annual inventory of unused accountable documents should be taken at the end of each fiscal year.

3.9 Purchasing practices at Head office level

1. Before any request for purchases is made ensure that the purchase is included within the approved budget and purchase plan.
2. All purchases of up to Dollar 1,000 .00 shall be done without Performa collection by taking the quality of items into consideration.
3. All purchases in excess of Dollar 1,000 .00 shall be done on competitive basis to get the least price and the right quality. At least three Performa invoices should be collected and obtaining the approval of the purchasing committee.
4. Purchase goods should be received by goods receiving notes and records should be kept for their movement through stock card and bin card.
5. Payment authorization, the three Performa original invoice, receipts, goods receiving notes and related documents should be attached with the payment.
6. All purchases shall be initiated by purchase requisition and approved by the respective department heads and development director.
7. All purchases should be made on cash basis not on credit.
8. Any purchase that will be made from the sole supplier in excess of Dollar 1,000 should be supported by special minute signed by the purchase committee with sufficient justifications and then approved by the development director.

3.10 purchasing practice at project level

1. Before any request for purchases is made ensure that the purchase is included within the approved budget and purchase plan.
2. All purchases up to Dollar 3,000 shall be done without collecting Performa
3. All purchases in excess of Dollar 5,000 .00 shall be done on competitive basis to get the least price and the right quality. At least three Performa invoices should be collected and have to get the approval of the project development committee.
4. Any purchase that will be made from the sole supplier in excess of Dollar 3,000 should be supported by special minute signed by the project development committee with sufficient justifications.
5. Purchase goods should be received by goods receiving notes and records should be kept for their movements through stock card and bin card.
6. Payment authorization, the three Performa, original invoice, receipts, goods receiving notes and related documents should be attached with the payment.
7. All purchases shall be initiated by purchase requisition and approved by chairperson of the development committee.
8. All purchases should be made on cash basis, not on credit basis.

3.11 Advance payments.

1. Money could be advanced to the staff members from petty cash fund or by cheque for duty travel and/ or work advance through payment voucher.
2. For contracted work money could be advanced to the contractor in accordance with the contractual agreement signed between **ARC** and the contractor. The advance payment will be effected upon the submission of the guarantee bond from the legally registered insurance/bank company. The subsequent payment after the execution of the construction work could be effected upon a written recommendation of the client's supervisor of the contracted work and based on the payment certificate submitted by the concerned line department.
3. The money paid in the form of advance for the head office staff should not be more than \$ 5000.00 whereas the money paid in the form of advance

for project staff should not exceed dollar 5,000 and settled by presenting authenticated receipts within the due date will not have salary of the next month and notification letter will be given to him/her from finance department.

4. An amount of advance given for specific purpose cannot be settled partially at different times and it should be settled at once.

5. Money advanced for a particular purpose could not be used for settling another expense.

6. Advance will be settled when appropriate receipts are presented to finance department.

7. If the purchase or the work for which the money is taken is delayed / cancelled fully or partially the fund should be returned to the cashier / bank within seven days.

8. Every advance should be settled with in the budget year

3.12, Advance clearance

1. Travel advance shall be cleared within seven days after the return of the staff from field.

2. Purchase advance should be cleared within fifteen days from cheque collection up to settlement of the items purchased. If there is any dalliance from cheque collection up to settlement of the items purchased. If there is any dalliance from the due date convincing justification should be presented and approved by the executive director.

3. Project advance shall be cleared within seven days after the given project activities is completed.

4. In all cases, no additional advance should be given unless the outstanding ones are cleared.

3.13, Salary payday

ARC's salary payday shall be the 26th day of every month unless such date falls on public holidays or weekends.

3.14, unclaimed salaries

Unclaimed salaries shall be paid to the staff after clearing the causes of the delay and obtaining official approval from the respective department heads or executive director within a maximum period of six months.

3.12 Inventory valuation, Inventory obsolesce

Inventory of **ARC**, if there is any, shall be valued at cost. In case of obsolete stock, it is the management team that decides upon its disposal by giving sufficient justification. If necessary the board members will also involve in giving decision about the disposal of the item .

3.17. Fixed Assets Management

1. Fixed assets acquired by **ARC** shall be recorded in the accounts at nominal value as an expense.
2. All fixed assets having a unit purchase price of \$ 100.00 and above with service year of more than one year shall be recorded in the fixed assets register. Where as fixed assets that have more than one-year service and which cost below \$100 and above \$ 150 should be kept by finance department in a memorandum of item lists signed by each responsible staff.
3. Annual inventory of fixed assets shall be taken at the end of each fiscal year and reconciled against the fixed asset register.
4. Fixed assets shall be disposed off only upon the authorization of the board of **ARC** . 5. The fixed asset register should include description of the asset type, serial number, model, property No, location or assigned person and date acquired.

3.18 Payment Authorization

In order to smoothen routine or day-to-day operations, the following authority limits regarding authorization of payments are put in place.

- I. Any one-time payment in excess of \$ 10,000 shall be endorsed, upon checking the process and analyzes of the chairperson of the Board or his official delegate.
- II. The executive director of **ARC** shall authorize any payment up to \$ 10,000
- III. The department heads shall authorize any payment up to \$ 1,200.00 IV. It is recommended that all payments be supported by an analysis of the given payment process and reasoning there of.
- IV. . Chairperson of the development committee of the project shall authorize any payment up to \$ 5,000 for payment more than this they have to get approval of the head office.
- V. 3.19, cheque signatories
 - I. Signatories of cheque must be authorized or delegated by the highest body of the organization, i.e board of directory.
 - II. The executive director and one of the department heads will be cheque signatories of the organization. Where as cheque for any one-time payment above \$ 5000 should also be signed by the chairperson of the board in addition to the regular signatories.

3.20, Routing of payments.

All payments should come directly and/or pass through the department heads of **ARC** and should always be checked by the finance head there by enabling the department to prepare the necessary payments in accordance with the policy of the organization.

4. CASH AND BANK ACCOUNTS

4.1 CASH AND CHEQUE RECEIPTS

4.1.1 DEFINITION

Cash is a medium of exchange for goods and services. It consists of coins and cheques on hand as well as cash deposited at Bank. It is the most liquid of all assets and hence it changes hands, places and vanishes into commodities within the quickest time possible. Hence, it required the most efficient system of recording and controlling. Cash receipts originate from donations, contributions, grants, and collection from sales of scrap materials, etc. It is collected either in the form of cash, cheque and bank transfers.

Cash receipt voucher annex 1

This is the document used to acknowledge receipts. It is prepared in triplicate, original for the payer, 1st copy for accounts, and the 2nd copy remains in pad. This document is pre-numbered and printed. Any cash collected by the cashier through receipt should be deposited intact.

The bank and cash register Annex 2

This register controls the movement of cash and cheques deposited in the bank and withdrawals from the bank by means of cheque. It also controls unilateral actions taken by the bank.

Journal voucher JV Annex 3

It is a medium by which accounting transactions are summarized to be recorded in journals.

Deposit voucher DV Annex 4

Used to register cash collected and deposited

Cash disbursement **ARC** voucher CDV Annex 5

Used to record check and cash payments

Bank Transaction formats

Deposit slips for cheque and cash, bank credit advises, bank statements, and bank correspondences are prime sources of accounting transactions between the bank and **ARC**. The very name of the bank formats explains the purpose of their usage.

4.1.2 Recording cash and Bank receipts

A. Each cash and cheque receipt transaction is recorded in the prime documents of cash receipt vouchers.

B. Bank transactions emanating from the bank through bank credit advice, bouncing cheque of collection shall be investigated and verified for correctness and fairness. After analyzing the credit, journal actions shall be taken immediately.

4.1.3 Reports

Reports will be produced on monthly, quarterly, bi annual and annual basis for the consumption of different bodies. These reports include:

Balance sheet

Income statement

Trial balance

Aging analysis

Fund and cash analysis

Budget versus expenditure

Internal controls

A. On cash receipt vouchers

- a.** Make sure that receipt vouchers are pre numbered and printed by order of the proper authority.
- b.** Ensure all cash receipts are deposited in bank
- c.** Ensure writings in cash receipt vouchers are completed only in ink.
- d.** Ensure only one receipt voucher pad is issued to the cashier against signature and that a new pad is replenished on finishing the old one.
- e.** Ensure the right placement of carbons for copy receipt vouchers.
- f.** Verify correctness of calculation, additions and extensions of the daily cash collection and deposit.
- g.** Ensure an accountant makes the review of the balancing of the entries of the cash collection and deposit.

- h. Make surprise cash counts at irregular intervals.
- i. Make cash transfers through banks only.
- j. Ensure the taking of annual leave by the cashier and its delegation by a person of stronger moral responsibility who can look for irregularities and mischief. The delegation should be independent of cash collection and account recording responsibilities.
- k. Ensure daily cash collections are deposited intact in the bank account of the organization
- l. Ensure physical controls over cash such as:
 1. Bondage of the cashier
 2. Protection of cashier by accompanying guards/driver when carrying cash from and to banks.
 3. Ensure providing fireproof safes, reinforced separate room and dependable lockers.

B. On cheque

- a. Never accept post-dated cheque
- b. Search for forgeries on cheque to be received
- c. Ensure receipts of daily cash and monthly bank position through bank reconciliation
- d. An accountant independent of cash and cheque collectors, cashiers, and the receivable accountant should do bank reconciliation.
- e. Post dated cheque, disputed items, unidentified receipts of cheque and the like should be forwarded and investigated by persons independent of preparation of deposits and posting of accounts receivable details.

5. PAYMENTS

Payments are disbursements **ARC** made for receipts of goods and services. They are effected either by cash or by cheque.

5.1, Petty cash payments

5.1.1 Definition

A petty cash fund is a fund established to meet petty and recurring expenses, which would not normally require the writing up of cheque. Petty cash operations should follow the imprest system where the cash on hand plus the documents paid out of the fund should equal to the established petty cash fund at any one time.

A . Petty cash fund

I. Establishment

The size of the petty cash fund is decided upon by management based on past experiences and extent of need for minor payments. In the case of **ARC** it is set at \$ 500.00.

II, Operation

Operation of the petty cash fund should follow the imprested system where the cash on hand plus the document paid out of the fund should equal to the established petty cash at any one time.

III, Payment limitation

The maximum amount to be paid out of the general petty cash fund at any one time should be fixed by management. In the case of **ARC** it is set at \$ 60.00

IV, Replenishment

The general petty cash fund shall be replenished under two conditions, i.e., when 75% of the fund is utilized and at the end of an accounting period.

5.1.2, Documentation

Petty cash payment voucher {PCPVs} annex 6

This voucher is printed and pre-numbered. It is prepared in two parts: original white copy goes to accounts with supporting documents, the second copy remains in pad.

☒Petty cash report and Replenishment format -Annex 7

This format of original entry registers PCPVs in their sequential order and shows the depletion of the petty cash fund with debits to expense/asset/liabilities accounts. It is prepared with two carbon copies the original being perforated and detachable goes to accounts with the PCPVs attached. On delivery of the report to the assigned accountant, the copy register format shall be signed as evidence of receipts of the petty cash payment vouchers. After verification of extensions and testing for correctness of documents, replenishment shall be reduced by the amount disputed.

5.1.3, Recording

- a) The general ledger A/C designated for petty cash fund account is "Petty Cash fund A/C"
- b) Approved petty cash documents are routed to accountant.
- c) The cashier ensures that payments are made to the right person by looking at the identification card of the payee.
- d) Cashier ensures payee signature for receipt is the same as the one on the identification card and then delivers cash.
- e) Paid petty cash payment vouchers and receipts are registered in the petty cash report and reimburse **ARC** request after they are stamped "PAID"

- f) The petty cash fund is replenished on 75% depletion.
- g) The petty cash report and reimbursent **ARC** request, attached with PCPV's and original payment request, is delivered to the assigned accountant.
- h) The accountant receives and checks for correctness of all vouchers in all aspects and signs for receipt of the report and its attachments on the un detachable copy of the petty cash payment report and reimbursent **ARC** request.
- i) Replenishment shall be made only to the amount of the undisputed vouchers.
- j) The disputed vouchers shall be returned to the cashier on signing for receipt of the returned vouchers.
- k) The undisputed reimbursent **ARC** requests shall passed for replenishments by cheque.

5.1.4, Internal controls

A} on the petty cash fund

1. the cashier is the responsible person to handle petty cash fund
2. Each petty cash fund must be operated on imprest, i.e. fund amount is always equal to the sum of the cash of the fund and the sum of the vouchers paid from the fund.
3. Segregate petty cash funds form other cash collections and funds.
4. Make surprise cash counts by accountants which is independent of the cash routine work.
5. Ensure petty cash payments are not exceeded from the pre set upper amount limit unless exceptions are approved and signed by the senior authorities.
6. Someone else other than the cashier should prepare petty cash payment voucher.

B} on petty cash payment {PCP} vouchers

1. Ensure PCPVs are pre-numbered
2. Ensure entries in the PCPVs are completed in ink.
3. Signatories must be of senior staff position and other than the custodians of the petty cash fund.
4. Check for proper budgeting and authorization of expenses.

C} on petty cash replenishment

1. Ensure adequate review of petty cash payment vouchers and the supporting documents attached.
2. Make sure that the petty cash replenishment cheques are made to the order of the petty cashier.
3. Ensure PCPVs and their attachments are stamped either "paid" or "Replenished" immediately after replenishment cheque is signed.
4. Ensure replenishment cheques are collected by the cashier after signing on the cheque payment voucher.

5. Ensure all petty cash funds are moving and reported only for the organization activities.

Cheque payments

Definition

Cheque payments are ordering a bank to make cash payment to the person or organization named in the cheque from bank current accounts held by the maker. Bank cheque payment process has the advantage of safe keeping of cash, saving of cash counting time, avoidance of the risk of carrying of large amount of cash, as well as handling big cash payments. Payment document verifications are the same as in petty cash payment recording.

Documentation

☑ Cheque payment voucher Annex 8

This format is printed and pre-numbered in sets of two copies. The original copy with supporting documents is given to accounts for processing. The second copy is retained in pad.

☑ Cheque

Cheques are written orders for cash to be withdrawn from bank current accounts. Cheques can be purchased from a bank in pads of hundred pieces {or in any number as required}

Internal controls

Opening of bank accounts, change of signatories and closing of Bank accounts should be authorized by the executive Board of **ARC**. In addition, the following precautions should be exercised:

A} On cheque payments

- a) Ensure cheque preparations are made by employees independent of voucher and invoice approvals, purchase and store receptor cashiers.
- b) Ensure all payments more than the petty cash limit is made in cheque.
- c) Ensure a clearly defined cheque approval process.
- d) Ensure segregation of duties of cheque payments, receipts, deposits, and recordings of cheques.
- e) The check has to be signed by at least two persons, one being executive director and other a delegated person by the board. There has to be at least three authorized people to operate the bank account and sign check jointly by any two.

B} on signing of cheque

- a) Ensure cheque signatories are authorized or delegated by the highest governing body, i.e., board of directory.
- b) Ensure authorized signers are independent of cheque payment voucher preparations.

c) Ensure cheque preparations, collections and disbursement **ARC** duties are free from signatories of cheque.

d) Ensure two or more signatories of cheque.

e) Avoid the signing of blank cheque.

C} On payment vouchers

a) Prior to the preparation of payment vouchers, ensure the validity of the attachments of supporting documents.

b) Ensure payments to be made are properly budgeted.

c) Ensure cheque payment vouchers are prepared on the basis of original suppliers invoices only, not from a supplier statement of account.

d) Ensure the entering of cheque numbers on the relevant cheque payment vouchers.

e) Ensure that payment vouchers and support documents are canceled with a "paid" stamp to avoid double payment.

D} on the cheques

a) Ensure that cheques are pre-numbered and used in sequential order.

b) Ensure blank cheque stock custodian is identified for accountability and is different from the staff preparing cheque.

c) Check the registration of cheques and cheque payment vouchers in the payment voucher register.


d) Check missing number of cheques from cheque pad.

e) Ensure that the signature part of spoiled cheques are properly mutilated and retained attached to cheque stub for future review; and

f) Ensure cheques are made to specified payees.

Bank reconciliation

Definition

A bank reconciliation statement is a statement prepared to reconcile the differences between the bank statement ending balance and the **ARC** records. Documentation  The documents of bank reconciliation statements are the Bank statement, the monthly cash collection and deposit, check payment vouchers and the previous month bank reconciliation statements.

The bank reconciliation statement {ANNEX 9} should be prepared at the end of each month.

Recording bank transactions

a) Bank advices received from the bank should be journalized and recorded at the time of receipts.

b) The bank for costs of chequebooks etc. does not issue debit advices and they should be journalized from the bank statement so that they cannot be carried forward as reconciling items in the bank reconciliation statement.

c) Bank accounts should be reconciled with the records of the **ARC** as soon as the bank statements are received from the bank and a bank reconciliation statement should be produced in detail and include the date, reference numbers and descriptions of all outstanding items.

Report

☑ Bank reconciliation statement

5.3.5, Internal controls

1. Ensure bank reconciliation statement preparation is done by independent person not involved in the preparations of cheques and deposits.
2. Check all cheque payments against Bank statement and note the differences.
3. Review if voided cheques are chased.
4. Ensure that accounting action is taken on unrecorded reconciliation items.
5. Check all deposits are included in the Bank statement.
6. Ensure that Bank reconciliation statement are prepared, reviewed, initialed and dated by the reviewing official.
7. Ensure bank statements are properly filed for future references.
8. Funds of **ARC** should be deposited in the name of the **ARC** to a bank.
9. Bank accounts for the **ARC** may be opened or closed only by the executive board of REMCO. When there is a change in the signatories of bank accounts, the bank should be notified immediately about the changes and date effective date of the changes.
10. When collecting cheque book, the person collecting should check if all the cheques are in place in sequential order.
11. Cheque book must be kept in the safe custody of the responsible person other than signatories.
12. All cheques must be fully accounted for the organization purpose.
13. Voided/spoilt cheques should be kept attached to the cheque stub after mutilating the signature parts

6. Accounts Receivable

6.1 Definition

Accounts receivable is money due from third parties to who advances in the form of cash, commodities, services, etc are made. Receivables in **ARC** include project advances, salary advances, and travel advances. Purchase advances. Deposits and prepayments. Fund receivables, sales receivables, sundry debtors. Etc.

6.2 types of receivables

6.2.1 Pledges

Pledges are moneys committed by donors but not yet received. This is recognized as income only when cash, other assets, or services are received.

6.2.2 Work advance to staff

Work advances are moneys advance by **ARC** to its counter parts or project staffs that will be accounted for at a later date.

6.2.3 Travel advances

Travel and per diem advances are moneys advanced to **ARC's** employees for approved business travels.

6.2.4 Purchase advances

Purchase advances are mainly advances given to employees to purchase goods required for **ARC** activities.

6.2.5 Prepayments

These include charges paid in advance applicable for future coverage such as prepaid rent, insurance, maritime, transit service charges, etc.

6.2.6 Fund receivables These are moneys disbursed on account of funded project activities, which are due for reimburse **ARC** , by donors. 6.3 documentation In establishing accounts receivable, the accountant must first determine how the receivable originated. In the case of REMCO, receivables could mainly arise from a prior cash payment by the organization. In this case, cash is due to the organization as a result of previous cash payment made to suppliers, employees or project holders and the documentation are the payment vouchers and their supporting documents. In the case of per diem and travel a format is prepared as indicated below.

☐ Travel Advance Format –Annex 10

This format is prepared in one copy. The original is to be given to finance department at the time of drawing the advance.

☐ Travel Expense Report Format-Annex 11

This format is prepared in one copy at the time of return from travel. It will be submitted to finance department after getting the approval of the management and by attaching all relevant Documents.

6.4 Reports

- ☐ Schedule of Receivables
- ☐ Age analysis of Receivables
- ☐ Listing of defaulting debtors

6.5 Internal Controls

1. on Purchase Advances

- i. Ensure purchase advances are made in cheque in favor of vendors.

- ii. Purchase advances should be cleared within five days against the invoice of the supplier and goods received note.
- iii. Purchase advance made in cash, if any, should be liquidated within the specified day or period.
- iv. Additional purchase advances should not be given before the previous advance is cleared

2. On prepayments

- v. Determine whether the amounts shown as prepayments are applicable to future period and are properly classified.
- vi. Determine whether the amount can be reasonably expected to be realized.

3. On Fund Receivable

- i. Ensure prior approvals and commitments by donor for refunding of over expenditures.
- ii. Ensure moneys of restricted funds should not be used for other fund expenditures.

4. On Travel Advance

- i. The executive Director or Department coordinator must approve travel advances.
- ii. ii. Travel advances should be limited to reasonable expected expenses such as transport, lodging, meals, and vehicle running expenses and reserve for unforeseen expenses. The management team of **ARC** will set the per diem rate.
- iii. iii. Travel advances must be cleared in full within ten days period upon return from trip. iv. Additional advances must not be given before the previous advance is liquidated if the traveler has returned from previous trip.

5. On work advance

- I. Work advances should be requested and authorized by the concerned official
- II. Ensure that advances to third parties are made on the basis of written agreements.

III. Ensure and follow up the utilization of the advances is for the intended project.

IV. Ensure timely clearance of work advances.

7. INVENTORY MANAGEMENT

7.1 DEFINITION

Inventory materials management and accounting is the process of acquiring, storing and distributing of goods and services to achieve defined objectives. Proper inventory management and accounting ensures the minimization of cost of acquisition, storage,

and distributions with the proper packing. The operation and the accounting of inventory management are divided into two major functions:

1. Procurement, and
2. Inventories

7.2. Procurement

7.2.1 Definition and general description

A] **ARC** acquires material through purchases donations.

B] Purchases are the acquisition of goods and services at the least price that market can offer. To achieve this purchase objective, the following policies are required.

All purchase shall be made through the purchaser on competitive basis except for goods and services that costs below \$ 60.

All purchases shall be made to the satisfaction of the requesting department as regards to specification of quantity, quality, size, packing and due date.

Purchases shall be made in the most appropriate legal terms and business ethics.

The most appropriate method of tending shall be followed to minimize cost of purchasing and lead time within accepted standards from realizable suppliers.

There shall be exceptions to purchase without tender if the conditions specified in the policy section of this manual are encountered.

Purchases are effected and planned according to the annual budgets provided.

The cost of goods purchased shall include the incidental cost such transport, storage loading and unloading packing cost of transit and custom clearance, bank charges insurance, et

If the goods do not arrive at the receiving store to fiscal year closing date, assets in the designation of "good in transit" are recognized if letter of credits or margins on letter of credit are paid.

Purchases are made on cash basis.

C) Donation are free receipts of goods. Materials accounting formats execute their receipts and distribution.

7.2.2 Documentation

Purchase requisition Annex 13

This format is prepared in two copies by the user. The original goes to the purchasing unit, the user and the second copy remains in the pad. Prior to the requisition of purchase there must be conformation form warehouse as the material is out of stock.

Purchase process shall be effected as per budgeted and after approval of the concerned official

Price quotation list: Annex 13

A list of items to be purchased will be prepared with its specification and stumped by the organization purchase committee or delegated person to collect price quotation at list from three suppliers.

☑ Offer Evaluation sheet --- Annex 14

The format a multi column or stenciled worksheet with the items to be purchased listed in rows and the prospective suppliers in columns. Towards the end of the offer Evaluation sheet, the conditions of purchase are listed in rows. They are provisions of discounts and other related purchase terms useful for decision. Offer evaluation sheets are made only to responses of more than three quotations. Offer Evaluation sheets should be prepared in three copies for the use of purchase committee, and purchase file and the results of the valuation have to be recorded and signed.

7.2.3 Internal Control system

- I. Check that all purchase –requisition activities comply with purchasing policies and procedures of the development organization.
- II. Check that all requisitions are properly supported and authorized in accordance with the organization’s authority structure.
 - II. Ensure that purchase requisitions are properly signed by department the ads and executive director and have proper accounting distribution and budget reference
 - IV. Check that purchase related records are kept in a secure place
- VI. Ensure purchase receipt of goods and services are in good order and in accordance with the terms and conditions of the order.
- VII. Check that material receipts are prepared reflecting the goods and services received at time of receipt and the incorrect goods delivered are returned to the purchaser and that such item are not received.
- VIII. Check that materials receipt information is inputted to the inventory system on a timely basis.
- IX. VIII. Check that all outstanding and un received items are cleared within a maximum period of two months time.
- X. IX. Ensure all invoices processed for purchase payment represent goods and services and are accurate as to terms, quality, quantity, nature of charges, prices and extensions, account distributions and agree with established accounting classifications.
- XI. X. Occasionally check purchase operation records against prevailing market conditions outside of the organization.
- XII. XI. Ensure that independent individuals carry out purchase requisitions, purchase operations, purchase receipts and purchase payments.

7.3 Inventories

7.3.1 Definition

Inventories are stocks of tangible goods in stores and properties kept with staff of the ARC.

7.3.2 Documentation

☒ Ware house requisition – Annex 15

It is prepared in two copies by the requesting user unit. The originals detached from the pad and delivered to the store. The first copy shall be given to finance to be attached with original store issue voucher, and the third copy remains in the pad.

☒ Goods Receiving Note (GRN) - Annex 16

The GRN is a pre numbered and printed which is prepared in four copies to acknowledge receipt of goods. It is prepared by the storekeeper after the inspection of the physical conditions of the materials for specifications, quantities, quality, physical damage, after comparing the supplier's delivery note with the purchase requisitions. The GRN is distributed in the following manner: original and third copy to purchaser, second copy to accounts, and the fourth copy to store clerk and the fifth copy is retained in pad.

☒ Store Issue voucher (SIV) – Annex 17

The delivery of goods to users or requesting units is effected by the use of the store issue voucher. The SIV is pre numbered and printed in three copies. The distributions of copies of SIV are:

- I. Original to accounts
- II. II. Second copy goes to users.
- III. III. Third copy to store clerk
- IV. IV. Fourth copy is retained in pad.

☒ Stock card – Annex 18

It is another stock control record kept for each stock item by the finance department segregated from store functions. It shows the receipts and issues of each stock item both in quantities and values.

☒ Inventory count sheet - Annex 19

This is a format used to record inventory counts. It is prepared in two copies to be distributed to accounting unit, and storekeeper. It could be stenciled or printed.

7.3.3 Internal controls

1. Ensure receipts of all donated/purchased materials are filled in GRNs and reported to accounts and updating of stock unit.

2. Ensure materials are not held for the user for more than a specific period. The user should be contacted to determine whether the goods should be put into stock or disposed of.

3. Ensure that each material issued from store is properly documented and delivered to the appropriate final user.

4. Ensure annual inventory taking, and inventory report.

8. WORK IN PROGRESS

8.1 DEFINITION

Work in-progress represents expenditures of a capital nature made on construction on buildings, fences and compounds, major improvements to existing facilities, with a view to increase their working capacity and service-life, installation of plant and machinery, etc., prior to commissioning. The work – in –progress account is used to accumulate the cost of constructions until completion.

8.2 Documentation

Documentation for all expenditures on work-in-progress is the same as that shown under disbursements **ARC** .

8.3 recording and accounting designation

In Ethiopia all NGO properties whether for the NGO's use or to be handed over to communities are the property of the government of Ethiopia and/or communities. Thus, all NGO's do not have ownership of properties except the right to usage. Therefore, NGOs are trustees of government or the community. They are custodians of the properties until such time that the properties are handed over to the government at the time of phase out, or until delivery to communities on completion.

8.4 Reporting

Reporting for each work-in-progress has to be compiled and submitted to the government and donors at the preset requirements and periodic intervals.

8.5 Internal controls

1. Ensure performance measurement of works under construction.
2. Ensure a duly authorized certificate of payment is obtained before payment.
3. Ensure that reports are certified by the supervising staff/consultant/engineer.
4. Ensure that actual expenditures are compared with budgets
5. Ensure that contingencies and variance are approved before presentation for payments.
6. Ensure that works are commissioned for in service before take over.

9. Fixed Assets

9.1 Definition

Fixed assets are properties having a useful life of more than one year and with unit cost of \$ more than 1000 that will acquire for the organization's use. The development organization hold fixed assets in the form of vehicles furniture equipment building etc.

9.2 Acquisition of fixed assets

REMCO could acquire fixed assets by direct purchase or donation.

9.3 Acquisition of fixed assets by purchase

Whenever fixed assets bought for cash, the following procedures should be observed:

I. Requisition for purchasing assets must be approved by those in charge of the budget fund source (center) for which the asset is to be purchased subject to the limit of authority.

II. The requisition should mention the funding sources, budget heading and the amount budgeted.

III. Purchases of fixed assets should follow the general purchasing procedures of **ARC**.

9.4 Donated Fixed Assets In some cases **ARC** acquires fixed assets by donation.

Sometimes donors include the price of the asset and at other times they not. In such case, the asset received should be recorded at fair market value.

9.5 Disposal of Fixed Assets

The procedures for disposal of fixed should be as follows:

- I. The Development director of **ARC** should be responsible for proposing the disposal of fixed assets, which has to be approved by the Board of **ARC**.
- II. The person in charge of the asset should prepare a written proposal for the disposal of the asset which is no longer in use stating the condition of the asset and the approximate value.
- III. The top management of **ARC** then approves the proposal.
- IV. Invitation for tender is then requested through newspapers or notices stating the surety money for tender deposit.
- V. Quotations received are summarized in a comparative statement and select the one who has given the highest offer and state the reasons of selection.
- VI. Top management approves the selection and the successful candidate is notified as to the method of delivery of the asset.
- VII. Sales contract is prepared in duplicate, the original going to the buyer and the other copy to accounting department.
- VIII. On the collection of the proceeds, the item is delivered.
- IX. The sales of the fixed assets including the proceeds obtained have to be reported to higher management body and DPPC. In addition an approval has to be obtained from the respected official to use the proceeds.
- X. **9.6 Fixed asset register (annex 20)**

1. A register of all fixed assets should be maintained. Fixed assets with value of more than Dollar 60.00 and a life of more than one year should be recorded in the register.
2. The register should contain all assets physically existing.
3. The register should contain the cost, the property number, location, employee responsible for the assets, date of acquisition etc.

9.7 Documentation

Fixed Asset Register

The purpose of this format is described under 9.6 above

9.8 fixed assets coding

Fixed assets in the organization are given tag/code numbers to easily identify their location and for other control purposes.

9.9 Reporting

I. Summary of fixed assets showing the beginning balance, additions and disposals should be reported at the end of a reporting period. The report will be submitted to the board and a copy will be sent to the DPPC.

II. The summary should include both cost of the material and acquisition date.

III. At least once in a year, physical count of fixed assets should be carried out and compared with the register. Any discrepancy should be reported to top management.

9.10 internal controls

I. Only required assets that must be used efficiently and effectively for fulfilling the overall objectives of the organization should be purchased.

II. Fixed assets must be kept in a secure place that ensures their working conditions.

III. Fixed asset such as motor bikes and vehicle must be insured against fire, burglar, motor, etc.,

IV. Physical inventory of fixed assets should be taken at least once in a year to verify the existence and conditions of the assets.

IV. The physical count should be compared with the register.

V. VI. Motor vehicles should be used for the Organization's official business.

VI. VII. A log book should be maintained by each driver for the journeys undertaken by his/her vehicles, showing number of KMs, starting, destination and budget center to which mileage should be charged.

VII. VIII. Ensure that the register contains all existing assets.

10 LIABILITIES

10.1 Definition

Liabilities normally arise as a result of goods purchased on credit or services obtained on deferred payment basis or funds borrowed. They form liability in the balance sheet. It includes accrued expenses, provident fund payable,

and income tax payable. Retention payable and trust fund payable and unclaimed salaries. In the balance sheet of **ARC**, we can only have current liabilities.

10.2 current liabilities

Current liabilities are moneys due within one year. They include:

- I. Accrued expenses: these are expenses incurred but not paid at the end of a reporting period.
- II. II. Provident fund payable: - This is normally the unpaid portion of the **ARC** contribution towards the provident fund.
- III. III. Income tax payable: - This is tax withheld from the salaries of local employees.
- IV. IV. Retention payable: - This is amount returned from the payment to contractor's in accordance with an agreement to make good future defect in construction.
- V. V. Trust fund payable:- This is money due to a donor of restricted fund
- VI. VI. Severance reserve: - This is a reserve for future severance payments.
- VII. VII. Unclaimed salaries and wages:- This is the money unpaid to the staff due to some reasons

Withholding of salaries and wages should be made upon proper written authorization only. When an employee has not reported to the cashier to receive his/her salary/wages before the end of the month, the unclaimed salary/ wages will be deposited to the bank.

10.3 Documentation

The conditions defining the acceptance of resources and the terms of discharging responsibilities on the accepted resources should be described in legally binding agreements and contracts between the parties involved. There are no separate formats for liabilities. They share the documents of purchase in the case of purchase on account. The other liabilities originate from journal vouchers.

10.4 internal controls

1. Ensure that accrued expense such as water, electricity, telephone service fees are estimated at the end of the fiscal period.
2. Ensure that reasonable estimates are made for accrued expense not actually billed.
3. Ensure that the reversal of accrued liabilities is made at the beginning of the next fiscal year.
4. Ensure that detailed listing supports the updating of provident fund.

5. Ensure that payment of provident fund is made to the provident holder or the legal heirs.
6. Ensure payments of severance payment are debited to the liabilities account.
7. Ensure that income tax is paid to the inland revenue Authority within one month from the date of collection.
8. Ensure payment of retention money is made as per the agreement.

11. FUND BALANCE

11.1 Definition This is the accumulated balance of the differences between the revenues received and expenditures incurred in an accounting period. It is a balance sheet item, i.e., total assets are equal to total liabilities plus fund balance. In the revenue and expenses statement, fund balance represents the difference of revenues and expenditures.

All revenues received are classified as follows:

- a) In the case of restricted funds, the difference between the revenue received and the expenditure made is closed to a funds payable account when the revenue is greater than the expenditure; and in the case where the revenue is less than the expenditure (provided that the expenditure is within the overall budget approved and committed) it will be closed to a funds receivable account.
- b) In the case of unrestricted funds, the difference between the revenue and expenditure is included in the fund balance.
- c) In the case of contracts the surplus or deficit shall be closed to the fund balance.
- d) In the case of surplus/deficit from income generation activities, the difference shall be closed to the fund balance.

11.2 Documentation

There are no separate documents for the fund balance. However, the following books of entry and project document could serve as source documents for initiating any accounting action.

- I. Credit advice
- II. Project Agreement
- III. Project Budgets

11.3 Account recording

A) At the time of fund received: - Debit cash at bank account and credited to the respective project fund account

B) At the time of closing account: All expenditures and income should be closed to income and expense summary account. The balance on income and

expense summary account shall be closed to fund balance account or if restricted to the fund payable or fund receivable as appropriate.

11.4 Report

Breakdown report of fund balances by sources

11.5 Internal controls

1. Ensure that deficits on restricted funds are recorded in the funds receivable account and excesses are recorded in the funds payable account at the end of each fiscal period.
2. Ensure that restricted funds are not spent in excess without prior approval of donors.
3. Ensure that sources of funds are reported properly to the controlling government agency.

12. REVENUE

Sources of revenue of **ARC** The sources of revenues of **ARC** are:-

1. Donor funds
2. Counterpart funds
3. Self-generated come
4. proceeds from sales of scrap materials
5. contribution in kind (properties, commodities, facilities, materials etc)

Definition

Donor funds

These funds could be local or foreign. The donor funds could be classified into two major categories, i.e.

A) Grants: awards from organizations or individuals are known as grants. Restricted grants are often associated with one or more of the following conditions:

- I. Segregated fund accounting
- II. Funds are to be spent within specific time frames
- IV. Unspent balances are returned to donors or used for other purposes as per the revised agreement.

IV. Periodic line item financial reporting

B) Contract:

A contract is a legally binding agreement, where an organization agrees to provide the contracting organization with specified goods or services required for payment.

Counterpart fund

A counterpart funds is a donation from an organization or individuals that meet all of the following criteria:

- I. No segregated fund accounting
- II. II. No requirement of a specific time frame for the expenditure of the funds
- III. III. No requirement to return unspent balance to donor

Sales of scrap Items

Such income comes from proceeds of sales of materials not needed for current operation of projects. These are sale of empty containers/sacks and old/damaged items. In the case of items bought with restricted funds the organization has to obtain a prior approval to sale as well as to the use of the proceeds of the sales. Under such cases, the organization has to be careful in the treatment of such income.

Contributions in cash and in Kind

These donations include contribution in cash and in kind such as money properties, commodities, materials, facilities, etc. The receipt and issue of such items d discussed under inventory management. Contributions may be designated or undesignated. If they are designated they must be earmarked for a certain area or for specific property within the organization. Contributions are also classified as unrestricted funds.

Documentation

a) Donor funds

In most cases **ARC** has to write a proposal including budget breakdowns for each donor.

A file has to be opened containing:

All correspondence and analysis

Project proposal, revisions and agreement report, etc.

B) Sales of scrap Items

The documentations involved are minutes of the disposing committee, approval from donor, if any, cash receipts, etc. Prime source documents of revenues in cash and materials in kind are covered in cash and cheques receipts and inventory management.

Reports

A) periodic status report of revenue received

B) status of pledges/commitments

Internal controls

- 1) Ensure that records are maintained for all donations including the donor's name, amount, date and the compliance requirement.
- 2) Ensure that a designated individual is responsible to follow-up the implementation of donations in accordance with donor's requirements
- 3) Ensure that subsidiary ledgers are opened for each donor.
- 4) Ensure that subsidiary ledgers are opened for each income generation center.
- 5) Ensure that donated materials are physically inspected
- 6) Ensure that donated materials and facilities are recorded at fair market value (when the cost is not known)

13. EXPENSES

Expenses are the layout of resources in the form of money, materials, labor, and services to achieve intended goals.

13.2 Project Expenditures

Some schemes requiring concentrated efforts are isolated from other operations as project and the expenditures made towards that end are known as project expenditures. When payment is effected for project, project expenditure is debited and cash/ bank account is credited. Subsidiary ledger classified by project number shall be maintained making up control account.

13.3 Management and administrative Expenses

These are expenses incurred in no way related to any particular project, operation or revenue generating activity. These expenditures are accumulated in general overhead accounts until yea end and checked against the planned 10 to 15% budget for same at the time of closing.

13.4 Internal controls

- I. Ensure all expenses are properly accumulated, classified and summarized in the expense/ledger accounts
- II. Ensure that all purchased or donated items are recorded as an expenditure of the fiscal year
- IV. Insure that expenditure coding are properly revised prior to recording.
- V. IV. Ensure expenditures are made form the related budgets and project funds.
- V. Ensure all expenditures are included in the year-end reports

13.5 Payroll management and labor expense

13.5.1 Definition

Employees are entitled to receive their salary at the end of a pay period. In this respect a payroll is prepared at the end of the pay period showing the earning as well as the income tax and other deductions. All payroll taxes are based on the earnings of the employees. An organization is required by law to withhold certain payroll taxes from the salaries paid to employees.

13.5.2 Documentation

Payroll register Annex 21

Attendance sheet Annex 22

The first requirement of an adequate payroll record system is an accurate record of the time each employee has worked. Among the several methods of keeping time record, the most frequently used are attendance sheets which have to be signed by each employee on each day both in the morning and afternoon and approved by the appropriate official at the end of the month.

13.5.3 Payroll Accounting

The payroll register is prepared once every month with standing and one time payroll transaction in order to ensure that gross salaries are charged to appropriate cost centers, accounting entries should be made from the payroll itself.

Terminated employees

Terminated employees shall not wait for the payroll. They shall be stricken off the payroll from effective date of termination and their final payments are effected within seven working days from the date of presentation of fully signed clearance paper.

Remuneration to contracted and temporary Employees

- 1) Sometimes the nature of project work forces **ARC** to employ temporary workers by making a contractual agreement.
- 2) Copy of the letter of employment or contract will be forwarded to finance
- 3) Payment will be computed on a monthly basis for the number of days on the agreed rate of pay. Amount payable for income tax should be deducted from the gross pay and must be paid to Inland Revenue administration.
- 4) Care should be exercised not to release final payment unless the contracted temporary employee produces clearance from the respective supervisor.
- 5) Payment to temporary employees should not be prepared on payroll but must be made by wages sheet, A wage sheet must be prepared before payments are effected and should be checked and approved before payments are effected and should be checked and approved by the respective supervisor.

6) Income tax calculations on wages should be based, like salaries; on monthly gross wages (where payments are made every fortnight) Deductions for income tax may be made from the second fortnight pay, calculated on the gross income for the month, the first fortnight pay being made without deduction of income tax.

7) Once the preparation of wages sheet is completed in ink, which must be set out sectionalized by cost centers, and additions checked, the relevant summaries and analysis of the wages shall be made showing allocations to various cost centers.

13.5.4 Reports

1. Payroll reconciliation
2. Updated master file

13.3.5 Internal controls

- 1) Ensure that the payroll preparation, time keeping and payment functions are segregated.
- 2) Ensure the submission by each unit to accounts all relevant payroll data before preparation of the payroll every month.
- 3) Ensure that information like pay rate, allowance and service charge if any are made available to finance department at the time of employment.
- 4) Ensure that all deductions from the salaries of an employee are legal or the employee is informed in writing before any deduction is made.
- 5) Ensure that payroll is approved by the development director or the concerned department heads or by their duly authorized representatives.
- 6) Ensure that payment of salaries and wages are made to the employee or to the legal representative.
- 7) Ensure that unclaimed pays not paid out within one week from the effective payday, must be deposited with the Bank and not used as a petty cash.
- 8) Ensure that payroll information is kept secret.

BUDGETING

14.1 Definition and General Description

Budget is a plan of operation based on the estimates often itemized. Of expected income and expenses, for a given period of time: which could be prepared for one year could be prepared for one year or for multi – years.

Budgeting is the process of allocation limited resources to unlimited demands. Therefore, **ARC** has to plan for sustainable projects, which will be ranked for priority and appealing to donors funding.

14.2 Budget Information Requirement

All departmental heads and project coordinators have to prepare their budget requirements. Each unit has to define its objectives and the activities required for implementations. To carry out activities planned, each projects has to prepare a break down of the required materials, Human resource, equipment and other services in quantity and value. To finance the planned activities, Information on source of funds such as commitments, Contributions in cash and inn kind, internal revenue generations, etc, is required. More over, each projects ahs to prepare cash flows based on the available budget and get approval from the concerned supervisor and submit to finance for further action.

14.3 Need for Long –term project Document

Long –term project document s the base for preparing the multi- year project budgets. After the overall project budget is determined, it is broken into individual financial year’s budget. The long- term forecasts are reviewed and revised to reflect current situations.

14.4 Need for Long- term project Document

Annual budgets are plans of operations for programs and services to be implemented in the following finical year. The annual budgets are mainly required to control and monitor the annual revenues and expenditures of each project.

14.5 Elements and forms of Annual Budget

The income and expenditure budget should include the expected income and expenditure by line items that are going to be received and incurred in the coming financial year. The elements of budget are: Budgeted Revenue, Operational Expenditure, and capital Expenditure. The forms used in budgeting are the same as those in financial operation and financial statements.

14.6 Preparation of budgets

1. Head of cost units or departments are responsible for preparing annual program of work and financial estimates of expenditures.

2. Finance Department using the most up- to date information including membership contribution, grants and donations, internally generated income, sales of assets, etc prepares the income budget.

3. All costs should ultimately be charged to project/ programs; those budget centers, which are not project specific, should be allocated or apportioned to project centers before finalizing the budget.

4. Proposals for new project/ program, major fluctuation in price, significant components and changes to existing projects may necessitate a budget revision. After preparation of the budget, a recommended revised budget Should be sent to the donors at the earliest opportunity in order to obtain approval before implementation.

14.7 Expected budgetary time – table

The following is expected budgetary timetable

1. Each cost center or department should prepare and complete its budget and submit it to finance Department for compilation two months before the end of the current fiscal year.

2. The draft budget document should be completed and submitted to the Board a month before the end of the current period.

3. The board should approve the budget two weeks before the end of the current period.

5. The approved budget should be communicated to the respective Projects or departments a week before the start of the new budget year.

14.8,Budgetary Discipline

1. The approved budget shall constitute the authorization to incur obligation up to the monetary limit of the budget.

2. No cost should be incurred unless approved in the budget or the management team gives special approval before the cost is charged.

3. There should be flow of budgetary information to budget implementers.

4. Review of budget executions should be made on quarterly basis to prevent over and under expenditures for prior management action.

14.9,Budget control

Strict control should be made over the approved budget. If no control is exercised, there could be unwise utilization of resources. Budget control cash flow will be used for this purpose look at Annex no.23

the budget appropriation for each line item will be entered at the beginning of the fiscal year as per the approved planned budget of each project.

14.8 Budget as a Measure of Performance

Budgets are prepared to achieve goals. To accomplish the goals expenditures are incurred. These expenditures should be compared with the quantified performance so that budget could be used as a measure of performance. The primary focus is on evaluation of the efficiency with which existing activities are being carried out. Its primary tools are cost accounting and work measurement.

14.9 Reporting

Quarterly cumulative comparative budget report should be prepared to indicate budget variances, i.e. comparing actual expenditure with planned budget. The reasons why variances occurred should be fully explained especially when the variance is below or above 15%.

15. FINANCIAL REPORTING

15.1 Definition and description

Financial statements include: - Balance sheet, funding and expenditure statement, income statement, trial balance and budget VS expenditure reports.

Financial statements provide a lot of useful information to users. Some of which are:-

- i. serve as information source to management and other authorities for planning and economic decision,
- ii. Provide donors/ user with information for predicting. Comparing and evaluating earning and spending power,
- iii. Judge management's ability to utilize resources effectively in achieving primary goals, and
- iv. Serve as source of disclosure for underlying assumptions with respect to matters subject to interpretation, evaluation, prediction or estimation.

Because of the important role that they play, financial statements should be prepared with care as to meet the qualitative characteristics of relevance, understandability, reliability, verifiability, neutrality, timeliness, comparability, consistencies, completeness, conservatism, continuity, historical const, materiality and quantification,

15.2 Types of Reports 15.2.1 Balance sheet Balance sheet is a statement showing the financial position of an organization as a specific date. Only major accounts are to be shown on the balance sheet. Sub -groups for major accounts should be supported with details in the notes to the accounts.

15.2.2 Statements of Revenue and Expenditure

The statement of funding and expenditures shows the results of operation of an organization. The statement in the case of cash flow shows the changes in cash over a specified period of time.

15.2.4 Notes to the Accounts

Notes to the accounts constitute an important part of the financial statements as they give the readers of the financial statements additional information detailing those contained in the balance sheet and statement of revenues and expenditures. They also include the accounting policies adopted by an organization in preparing the financial statements. Moreover, It is in the notes to the accounts that an organization indicates why it is established and for how long. Therefore, the notes to the accounts are part of the financial statements presented as explanatory details to the financial statements.

15.2.5 Management Reports

Management reports are reports produced on monthly basis for management reports include, bank reconciliation, status of cash and bank position, cash flow statements, again of accounts receivable and payable, status of movement and balance of stock items. More over physical verification of stock and fixed assets inventory and any discrepancies between the record balance and physical counts should be reported to the management as the end of each fiscal year.

15.3 Documentation

There are no special formats for financial statements.

15.4 Schedule of Reporting

15.4.1 Date of producing report

Monthly financial report should be prepared and submitted to the management within ten days of the next moth. Where as quarterly report should be submitted to the management team within one- month time after the date of closing. The **ARC** board will always review the quarterly and annual reports of the organization and give direction to the development director.

15.4.2 Delivery of Financial Reports to External Audit

The annual financial reports referred above should be reviewed by management and submitted to the external auditors within 15 days of its submission.

15.4.3 Expected Date of Receiving External Audit Report

This depends on the size of the organization and type of audit approach. In any case the audit report even for a large organization should be expected within 2 months after the draft accounts are submitted to the external auditors.

15.5 Internal control

The preparation of the financial statements should ensure that the qualitative objectives of reporting are met.

16.2 Duties and Responsibilities of the Finance Department

The following are the detailed function of the Finance department of **ARC**.

- a) Develop and establish sound accounting policies and procedures throughout the organization.
- b) Provide functional directional to all other units of the organization in financial matters, and ensure that proper procedures are being followed.
- c) Maintain records of all accounting transactions in accordance with generally accepted accounting principle and practices.
- d) Establish a system of financial reporting to donors and management; prepare financial statements of operations of the organization.
- e) Establish a system of budget plan over expenditures: coordinate all the budget setting and advice management of the significance of variances occurred.
- f) Develop payment procedures for salaries of all personnel and ensure correct computation and payment
- g) Control the collection activities and maintain adequate system of safeguard over receivables
- h) Ensure that satisfactory – stock recoding system is in use the organization.
- i) Review the financial aspect of the organization’s plans and policies, and advise the management of the organization on all financial matters.
- j) Set satisfactory fixed asset register for fixed assets. Ensure that the organization maintains an adequate cash flow to meet its financial obligations.
- k) Deal with credits and all payments due by the organization are settled; ensure that adequate procedures exist and re adhered to for authorization of purchase and fore payments.
- l) Deal with all matters relating to taxation.

- m) Review and follow up reports from external and internal audits and give timely responses on the audit comment.
- n) Prepare capital and operating budgets for the Department and the organization as a whole in cooperation with the concerned other Departments.
- o) Control all expenditures within the authorized budgets and determine the reasons for any variances from the budgets.
- p) Prepare and maintain procedural manuals for the department to assist subordinates in carrying their respective duties and responsibilities.
- q) Arrange and provide training for all personnel within the department on the updated working procedures.
- r) Control and supervise all the activities undertaken by the general service coordinator, so that organizational needs related to personnel, purchase, vehicle service, ware house and office management task are met to the required standard

17. THE CHART OF ACCOUNT

17.1 Definitions

The chart of accounts is a list of the classifications and coding of ledger accounts by the groups they belong to the balance sheet and the funds and expense summary statement.

17.2, The algebraic definition of the balance sheet The algebraic definition of the balance sheet runs as follows:

- I. Assets are equal to liabilities plus fund balance.
- II. Revenue and expense summaries statement is revenue minus or balance.

17.3, Definitions of the elements of the balance sheet and Fund & Expenditures summary

a) Assets

Assets are properties owned by individuals or organizations. The asset components of the balance sheet are cash/ Bank. Account Receivable,

b) Liabilities

Liabilities are those groups of accounts that are owed to third parties and they are classified as current liabilities.

- c) Fund Balance Fund balance represents the acculturated balance of difference between fund and expenditures i.e. balance brought forward and results of current year operations.

d) Revenues Revenue accounts constitute grants, donations, endowments, contributions, other come generation, and donations in kind to achieve the objective of **ARC**

e) Cost and expenses These accounts constitute the group of expenditure accounts where funds are utilized for their intended objectives.

17.4 Listing of accounts in the Chart of account

The listing of accounts in the chart of accounts flows the order of liquidity. It starts with the most liquid item. i.e. cash account and may end up with other expense accounts.

17.5 The chart of accounts of ARC

17.5.1 Structure of the Chart of Account

Taking the reporting requirements of **ARC** and the possibility of computerizing the accounting systems, **the chart of accounts given as Annex 24** to this manual has been developed.

17.5.2 Basis of the Chart of Account

In **ARC** accounting, each donor's fund is considered as a separate entity. For this reason, the chart of accounts is designed to allow that a separate set of accounts be maintained for assets, liabilities, fund balance, revenue and expenses for each donor, This is the ground on which the development of the reference chart of accounts is based.

Segregation of duties at all levels

S/n	Duties/ control items	Head office	Projects
1	Cash receipts	Cashier	Cashier
1.1	Received Cash	Cashier	Cashier
1.2	Issued cash receipt	Cashier	Cashier
1.3	Holds cash until deposit	Cashier	Cashier
1.4	Prepare deposit slip	Cashier	Cashier
1.5	Take deposit to bank	Accountant	Accountant /project director
1.6	Prepare deposit voucher	Finance coordinator	Accountant /project director
1.7	Cash disbarments	Authorized approvers per approval limit	Chairperson of the development committee
2	Cash disbarments ARC	Accountant	-
2.1	Approve payment request	Accountant	-
2.2	Receive, review and cod	Finance	-

	payment Requests with supporting documents		
2.3	Prepare check & cash disbur ARC voucher	Coordinator	Accountant/project director
2.4	Approve cash disbur ARC Voucher	Accountant	Project director
3	Payroll	Finance coordinator	Chairperson of the development committee
3.1	Prepare payroll	Authorized approvers as per approval limit	Cashier
3.2	Review Payroll	Cashier	-
3.3	Approve payroll		Cashier
3.4	Distribute payroll	Accountant	
4	Banking	Authorized approvers as per approval limit	Cashier
4.1	Control Cheque books	Accountant	Chairperson of he development committe
4.2	Sign Cheque/ bank transfer	Finance coordinator	Accountant/project director
4.3	Record Bank /cash register book	Finance coordinator	Accountant/project director
4.4	Reconcile bank accounts		Accountant/project director
4.5	Review/ Approve bank reconciliation	Accountant	-
5	Recording transactions	Finance coordinator	-
5.1	Prepare Journal entries	Accountant	-
5.2	Approve Journal entries	Finance coordinator	-
5.3	Encode vouchers into Peachtree	Accountant	-
5.4	Review held Journals and post to Peachtree	Finance coordinator	-
5.5	Prepare financial reports	Finance coordinator	-
5.6	Review financial Reports	Finance head	-
5.7	Approve financial Reports	Development director	-
6	Purchasing	Purchase committee	
6.1	Supplier selection	Authorized approvers as per approval limit except purchase committee member	Development committee
6.2	Approve Purchase committee minute	Development director	Chair person of the development committee
6.3	Place orders to suppliers	-	Chair person of the development committee

6.4	Receive goods	Purchaser	Project director
7	Fixed assets		-
7.1	Control of fixed assets	Accountant	Accountant/project director
7.2	Record fixed assets	Accountant	Accountant/project director
7.3	Verify fixed asset records	Finance coordinator	Project director
8	Access to Records		
8.1	Financial documents / files	Accountant	Accountant/project director
8.2	Payroll files	Accountant	Accountant/ project director
8.3	General/ subsidiary ledger	Finance coordinator	-
8.4	Financial statements	Development director and finance coordinator	-

Approval limit of Authorized approvers

S/N	Position of the approver	Approval limit in \$	
		from	to
1	Development Board chairperson	Over	500,000
2	Executive director	25,000	500,000
3	Department Heads	Up to	25,000
4	Development committee chairperson at project level	Up to	10,000

List of annexes

1. Cash Receipt voucher
2. Bank and cash register
3. Journal voucher
4. Deposit voucher
5. Cash disbursement ARC voucher
6. petty cash payment voucher
7. petty cash report and replenishment format
8. Bank/cheque payment voucher
9. Bank reconciliation statement Travel advance format
10. employee expense report
11. purchase requisition
12. price quotation list
13. Bid competition format
14. warehouse requisition

Date_____

No_____

BANK PAYMENT VOUCHER

Payee.....

Amount in words

.....

Reason

.....

.....

Cheque No

Prepared by Checked by

Authorized by Received by

Annex 9

LOCATION.....
BANK NAME.....
Account No.....
Prepared by:
Reviewed by:

BANK RECONCILIATION STATEMENT

LINE NO	DESCRIPTION	AMOUNT
1	Balance per Bank statement	
2		
3		
4	Add. Deposit in transit	
5		
6		
7		
8		
9		
10	Add: other	
11		
12		
13	Less Outstanding check	
14		
15		
16	Less Other	
17		
18		
19	Adjusted Bank balance	
20		
21	Balance per book	

Annex 10

ARC

Location.....

Prepared by

Signature:-.....

Date:-

CHECK/CASH ADVANCE

VENDER/PAYEE

AMOUNT CHECK () CASH ()

AMOUNT IN WORDS

STATE PURPOSE AND REASON NEEDED:

REQUESTED BY CHECKED BY.....

NAME NAME

SIGNATURE SIGNATURE

DATE DATE

APPROVED BY:..... NAME

SIGNATURE DATE

NOTE:- originator must account for advances by returning paid invoice and/ or receipt to finance within 5 days for travel advances and business advance the day following the advance and purchase was made.

FOR THOSE WHO TAKE TRAVEL ADVANCE DURATION: FROM.....

TO =DAYS When your account for travel advance include information such as the dates of departure and return the number of days stays in the field and the purpose of the trip.

ARC

ANNEX 15

ARC

WAREHOUSE REQUESTION

FROM

TO

DATE

S.No	Item	Unit of measurement	Quantity requested	Quantity approved	Remark

Requested by..... Approved by

Name Name

Signature Signature

Date Date

ARC

Stock of materials inventory

As of

S/N	Description	Unit of measure	Unit cost	Balance as per				variance				Remark
				Stock card		Count		Overage		shortage		
				qty	Cost	qty	Cost	qty	Cost	qty	Cost	
	Stationary and office supply											
	Sub total											
	Construction material											
	Sub total											
	School furniture											
	Sub total											
	Agricultural material											
	Sub total											
	Vehicle materials											
	Sub total											
	Grand total											

Inventory committee

1. Name 2. name 3name
2. Signature signature Signature.....
3. Date Date Date

Chart of Account

The skeleton chart of account of account of **ARC** should consist the following in chronological order which helps the organization to use peach tree accounting system.

Account code ??digit

Goal code ?? digit

Donors code ?? digit

Area (Projects) ?? digit

Donors code

?????????

?????????

?????????

Area (project) code

01 Head office

02. Telalak.

03.???????

04.???????

Account code

Assets Accounts (???)

???. Petty cashier account

??? Bank accounts

???. Accounts receivable

???. Salary advance

???. Travel/ work advance

???. Customers/ government organizations etc

???. Enter Project receivable account

Current liability account (???)

???. Income tax payable

???. Withholding tax payable

???. Severance payable

???. Audit fee payable

???. Retention payable

???. Accounts payable

???. Gift from donors accounts

???. Vehicle replacement contribution payable

???. Enter project payable account

Capital account (???)

???. General fund balance (net funding)

???. Restricted fund balance

???. Vehicle replacement contribution accounts

Income account (???)

Income & expense summary account

Fund Account (???)

XXXX

YYYY

ZZZZ

SSSS

????????

????????

Expenditures / Expense (???)

How to code Peach tree

Eg. Petty casher of school project account

??-??-?-??-?? {110-01-0-01-06}

Classified as follows

The 1st three digits (???)

Represent Petty cash accounts

The 2nd two digits (???)

The 1st petty cashier accounts

The 3rd one digit (???)

Goal (in this case no need goal

The 4th two digit (???)

Donor code (in this case Nehemiah)

The 5th two digit (???)

Project code (in this case Ambo)

This policy Reviewed by Board Directors Member and Approved

Amira Ahamed Nasereldeen

Board Director

African Relief Committee

Date 31-December 2025

