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Joy Development Organization

FINANCIAL & ACCOUNTING PROCEDURES MANUAL

May 2021

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1. INTRODUCTION

CSOs are well recognized for their contribution to the society at large and specifically to the deprived segment of the society. It takes programs and activities for the sustainable development for them. To do this novel job, CSOs utilize resources. Often this resource comes from various sources outside the organization. Therefore, CSOs have double-edged responsibility to use the resources. One is to ensure good impact at the community and the other is to use the resources economically and prudently. CSOs, in general, are successful in making good impact at the community. However, the second consideration remains a challenge for many CSOs.

Any organization, be it for profit or for welfare mission, has to adopt an efficient accounting system to properly manage its resources in order to attain its anticipated objective (s). The system has to make sure that resource utilization has justifiable reason and bear accountability of the unit that has used up the resource. Moreover, adequate report has to be generated from the accounting system in order to clearly show the deployment of resources in various areas of endeavor.

Particularly, an institution like Joy Development Organization needs a clear and clean way of doing things financial wise as well as resource wise, so that donors and other stakeholders can be convinced that what they contributed has been utilized to the intended purpose and is achieving something positive.

Accounting and Financial manual provides the basic framework and guidance to reach the financial goal of making development impact economically. JDO is well recognized for its developmental impact. This manual is a positive step to ensure JDO commitment towards achieving financial excellence.

This accounting policy, systems and procedures manual is revised in view of the current position of the organization and the dynamics in the world. No doubt, it has to be revised and/or updated in line with the growth of the organization and its reporting requirements.

1-1 Overview of JDO

Joy Development Organization (JDO) is a local CSO re-registered under No.0176 in accordance with the Authority for civil society Proclamation. JDO is established in response to the need of children left orphaned or lacking proper care and support in 2006. The organization is implementing education support, promotion of urban agriculture, environmental protection, orphan and vulnerable children/OVC/ care and support, vocational skill training, prevention of child trafficking/labor, Life skill training, Reunify and reintegrating internal and external migrants, prevention and control of HIV/AIDs, COVID-19, livelihood enhancement (saving and credit scheme through women self-help group), integrated functional adult literacy/IFAL/, promotion and networking in the development of democracy, voter education for election, peace-

building, conflict resolution, gender equality, and human rights in collaboration with like-minded organizations.

As reflected in the structure submitted to Authority for Civil Society Organization (ACSO) the organization has two major tier structures consisting of a Board and an Executive Director. The Boards convened every year to hear the annual report presented to it by the Executive Director. The Board is the highest decision-making body in Policy matters and the Executive Director provides the management with strategic direction and technical support. The Board of Directors, which consists of 5 members, serves for a period of four years. The Executive Director is responsible for program development, implementation of program/projects and follow-up of the day-to-day affairs of the Organization. The program coordinator, finance and administration head, Public Relation, fundraising and marketing unit are accountable to the Executive Director. JDO has been implementing its program in Sidam Regional Government of Ethiopia. It can extend its intervention in different regions of Ethiopia on conditions of community needs and availability of funding.

Since its establishment, JDO has been implementing projects that support vulnerable and unemployed Children, youth and women to have access to employment and/or self-employment opportunities through holistic intervention approaches. Through gaining paramount experiences and by improving its approach and methods, JDO is being able to achieve remarkable results. Its innovative intervention approaches had significantly contributed to bring about notable achievements. In accordance, contribute in the reduction of the number of vulnerable children, maintain the well-being of OVC in the area of social, economic and ethical development, help children use their potential to be self-sustained, increased the number of children in school enrollment, lower dropout rates and lengthen children's education, observe behavioral change about HIV/AIDS, HTP /FGM et-al, Contribute in the reduction of trafficked children, promote livelihood to destitute women, strengthen local institutions to fight child trafficking among others in the development of democracy, voter education for election, peace-building, conflict resolution, gender equality, and human rights in collaboration with like-minded organizations..

Vision

JDO dreams of a society with equal opportunities for all children, youth, women and others to realize their full potential thereby taking charge of their own future.

Mission

JDO aims to achieve lasting improvements in the lives of undeserved children, youth, women, families and other community groups through integrated community development programs

Membership:

Joy Development Organization collaborates with various organizations such as the Consortium of Christian Relief and Development Associations (CCRDA), Action Network, and Coalition of Ethiopian Civil Society Organizations for Elections (CECOE) through different forms of partnership and collaboration. Here are our collaboration:

Consortium of Christian Relief and Development Associations (CCRDA): Joy Development Organization may collaborate with CCRDA to participate in joint initiatives, share resources and knowledge, and advocate for common goals within the development and relief sector. This collaboration involves working together on projects related to social services, community development, or emergency relief response.

Joy Development Organization and CCRDA may also engage in capacity-building activities, knowledge-sharing platforms, and joint advocacy campaigns.

Action Network: Joy Development Organization collaborate with the Action Network to address specific social issues or promote specific causes. This collaboration could involve joint fundraising campaigns, joint programs or projects, or sharing best practices and expertise relevant to their respective areas of focus. Joy Development Organization and the Action Network may also collaborate on awareness-raising initiatives, policy advocacy, or community engagement activities.

Coalition of Ethiopian Civil Society Organizations for Elections (CECOE): Joy Development Organization may collaborate with CECOIE to support and promote free and fair elections in Ethiopia. This collaboration could involve providing technical assistance, training, or monitoring and observation support during the electoral process. Joy Development Organization and CECOIE may also work together to raise awareness about the importance of civic participation, voter education, and the protection of human rights during elections.

Overall, collaborations with these organizations allow Joy Development Organization to leverage their expertise, resources, and networks, strengthen their impact in various sectors, and contribute to collective efforts to address social issues and promote development and social justice in Ethiopia. The specific nature and scope of collaboration would depend on the common goals and areas of interest shared with each organization.

1-2 Major Areas of Interventions

The organization is implementing education support, promotion of urban agriculture, environmental protection, orphan and vulnerable children/OVC/ care and support, vocational skill training, prevention of child trafficking/labor, Life skill training, Reunify and reintegrating internal and external migrants, prevention and control of HIV/AIDs, COVID-19, livelihood enhancement (saving and credit scheme through women self-help group), integrated functional adult literacy/IFAL/, promotion and networking in the development of democracy, voter education for election, peace-building, conflict resolution, gender equality, and human rights in collaboration with like-minded organizations.

1-3 Sources of Funds

The major financial resources for JDO include:

- Income from individual
- Donations
- Grants from National and International funding agencies

1-4 Manual Revision

The management bodies of JDO underline the necessity of having clearly defined financial and accounting policies. Thus, this financial policy manual was revised with prime objective of developing a system that will provide adequate internal control over the available resources and thereby create an enabling environment whereby the reporting requirements of donors and other stakeholders will be met. In order to ensure comprehensiveness of the manual, information was gathered from various sources including:

- Previous Financial Policies and Procedures Manual of JDO
- Financial Policies and Procedures Manual of prominent Organizations
- Manuals and documents from other indigenous CSOs
- Opinions gathered from senior Management staffs and coordinators
- Findings from experience sharing visit
- Gathering latest information from websites

1-5 Application of the Manual

For subsequent applications of this manual, JDO as an institutionalized entity has fully fledged mandate to the usage, authority and staffing policy to guarantee segregation of duties and responsibilities. The manual raises a number of specific policy issues that are discussed and decided by the board of directors. However, JDO should orient its accounting staffs on the content of the manual during implementation. One copy of the manual should be given to the finance and accounting head for daily reference use which will be returned to the management while she/he leaves the organization. If required, this full manual or its summary should be translated into Amharic version to deal with possible curiosities of some staff members.

1-6. Function of Accounting and Finance Unit

JDO has an organized Financial Resource Management Unit that will perform financial and accounting activities. The unit primarily deals with financial, administrative and material affairs of the Organization. The unit has the objective of developing financial and cost awareness including the preparation of financial reports and maintenance of books of accounts in accordance with generally accepted accounting principles (GAAP) it's on the way to familiarize IFRS accounting standard. The satisfactory collection & disbursements of cash due to and by the JDO and the preparation of such periodic cost reports and analyses as will assist other user units of the



JDO to control its cost effectively. The head of Finance Department will be accountable to the Executive Director and works parallel with program manager and head of administration department. Detail Functions of the unit, pertaining to the financial activities include:

1. Deal with credit and all payments due by the organization are settled, ensure that adequate procedures exist and are adhered to for authorization of purchase and for payments.
2. Suggest ideas for revision/updating of accounting policies and procedures for the organization.
3. Develop payment procedures for salaries of all personnel and ensure correct computation and payment.
4. Provide functional direction to all other units of the organization in financial matters, and ensure that proper procedures are being followed.
5. Maintain records of all accounting transactions in accordance with Generally Accepted Accounting Standards/ IFRS.
6. Develop a system of financial reporting to the government, donors and management; prepare balance sheets and financial statements of operations of the organization.
7. Establish a system of budgetary control of expenditures, coordinates all the budget setting and advice management of the significance of variances revealed by budgetary control.
8. Establish a system of cost reporting to all levels of the organization.
9. Control the collection process and maintain adequate system of receivable.
10. Ensure that satisfactory stock recording system is in use.
11. Facilitate the review of the financial aspect of the organization plans and policies, and generally advise the organization on all financial matter.
12. Set satisfactory fixed asset register and depreciation rates for fixed assets
13. Ensure that the organization maintains an adequate cash flow to meet its financial obligations.
14. Ensure that the organization an adequate cash flow to meet its financial obligations.
15. Ensure selling prices and tariff revision to cover cost of revenue generating schemes
16. Deal with all matters relating to taxation
17. Review and follow up reports from external and internal audits.
18. Prepare and maintain procedural manuals for the unit to assist subordinates in carrying out the work of the unit.
19. Control all expenditures within the authorized budgets and determine the reasons for any variances from the budgets.



20. Prepare and maintain procedural manuals for the unit to assist subordinates in carrying out the work of the unit.
21. Provide training for all personnel within the unit on the use of computers and other refresher courses.
22. Deal with all administrative matters including personnel affairs.
23. Inform immediate supervisor of the performances of all parts of the unit by means of established reporting procedures. Recommend changes to these procedures as deemed necessary.
24. Perform any other duties assigned by senior management bodies

1-7. Process of updating

The financial procedure and policy of JDO is not a static document. It should be under periodic review to reflect the changing circumstances and financial information needs of the government and Donors. JDO update the manual for the following reasons:

- a) When the management of JDO sees the need for changes or amendment is recommended through study.
- b) When factors such as cost of living, structural change or any other cause demands
- c) When change is needed to cope with government regulations.

Following the management committee's discussion, the management committee is expected to submit recommendations for effecting such changes; the manual then will be approved by the board of directors to make it to come into force.

Commencement

This revised manual is effective from the 1st day of July 2021 and shall apply to all financial transactions undertaken by JDO.

Financial Year

The financial year of JDO shall be from January 1st to December 31st.

Accounting system

JDO utilizes a modified cash basis of accounting system and impress petty cash system.

Objectives of Finance Policies

The financial policies designed for JDO has the following objectives.

- Create a system of financial policies and procedures that will provide frame of reference useful for running day to day financial activities;
- Build a system of financial policies and procedures that ensures of safeguarding of assets and other resource and correct measurement of periodic expenditure and income;
- Set up a system of procedure and rules of reporting that conforms to the general rules and principles of accounting.
- It will establish a sound internal control system
- Provide standardized formats to be used;
- Meet the requirements of the government policies and donors' interest.

1-8. Segregation of Duties

The following is a list of personnel who have responsibilities within the accounting department:

Executive Director:

- Reviews and approves all financial reports;
- With the Financial Officer, and Project Departments input, develops the annual budget;
- Reviews and approves the payroll summary for the correct payee, hours worked and check amount;
- Reviews all supporting documents and authorize all cheque payments;
- Reviews and approves all contracts for goods and services that will be purchased over the year.

Program Manager:

- Checks and consult the finance unit utilize whether the allocated budget and the actual expenditure are in harmony
- Monitor all the expenditures are in line with the grant agreement
- Develops the annual and project budgets with the team;
- Performs any other related activities as assigned.

Financial Officer:

- Records and summarizes all financial documents;
- Processes all receipt and disbursement vouchers;
- Check and authorize payroll, including payroll tax payables;
- Reviews payment requests;
- Journalizes receipts and payments from prime documents;

- Maintains and reconciles the general ledger accounts monthly;
- Develops the annual and project budgets with the team;
- Control property and project accounts;
- Carries out annual audit preparation.
- Maintains unused cheque pads and all printed vouchers;
- Executes the overall accounting activities of the organization;
- Prepares and submit periodic financial report to all concerned body
- Reviews and approve all bank reconciliations;
- Carries out any other related activities as assigned by the Executive Director.

Administrative Assistant (Petty Cashier):

- Maintains petty cash;
- Makes payments from the petty cash for authorized payments;
- Prepares petty cash payment reports;
- Prepares reimbursement reports;
- Processes the payroll, including payroll tax payables;
- Deposits cash collected into the Bank;
- Performs any other related activities as assigned by the Executive Director.

Delegated of Authority

S.No	Area of Authority	Designated Person
1	Legal documents (where not covered below)	BDC, ED
2	Leases on property and equipment	BDC, ED
3	Current Account Cheques	ED & FA
4	Bank Account Transfers	ED & FA
5	Staff advances/loans	ED & FA (or in case of ED, Ch)
6	Staff expenses	ED & FA for all staff below ED level Ch& FA for ED
7	Board Member expenses	Ch& FA
8	Orders for Goods & Services	ED or PM &FA, providing within budget Ch& FA, providing within budget in this case minuted by full Board Meeting.
9	Petty Cash expenditure	FA & PM
10	Holder of Safe Keys	ED & SC
11	Receipt of cash & cheques	SC & AC
12	Banking of cash & cheques	FA, AC
13	Annual / sick leave	FA (or in case of FA, ED/PM) (In the case of ED,Ch and FA)
14	Maternity / Paternity	FA (or in case of FA, ED/PM) (In the case of ED,Ch and FA)
15	Contracts of Employment	Ch in the case of ED, ED or PM & FA

Key: BD: Board of Chair Person ED = Executive Director; FA: Fiancé Officer,

PM = Program Manager; AC: Accounts; SC: Secretary Cashier

1-9. Chart of Accounts

The number of accounts maintained by an organization is affected by the nature of its operations, its volume of activities, and the extent to which details are needed for the users of financial information. A listing of the accounts in the ledger is called chart of accounts. In so far as possible, the order of accounts in the chart of accounts should agree with the order of the items in the balance sheet and revenue and expenditure summary. The accounts are numbered in such a way that they can be easily located. The number of digits to be assigned to each account could vary. The minimum is two while the maximum depends on the size and volume of the Projects/programs. Normally, the first digit indicates the major division of the ledger in which the account is placed (Assets, Liabilities, Donated Fund, Revenue and Expenditure).

The chart of accounts of JDO shall be designed sufficiently to accommodate all categories of financial activities. The chart of accounts shall have the following seven major categories and account codes.

- 1000.....Assets
- 2000.....Liabilities
- 3000.....Fund Balance
- 4000..... Income
- 5100.....Expenditure
- A.....Administrative Expenditures
- P.....Operational Expenditures

And additionally, for the different projects cost centers the organization uses the project code (Job ID).

SHINY DAY SOCIAL SERVICES Organization
Chart of Account

Account Code	Cost Center	Admin/Pr Program	Activity	Source
XXXX	XX	X	XX	XX

Classification and Interpretation of the chart of Account

Name of GL Accounts	Account Code
Asset	1000
Current Asset	1100
Fixed Assets	1200
Liabilities	2000
Fund Balance	3000
Income/Revenue	4000
Expenditures	5100

Cost Centers/Departments	Account Code

Expenditure Category	Account Code	
Program /Direct	P	This represents the 80%
Admin/Indirect	A	This represents the 20%

Activity Code	Account Code
Activity 1	00
Activity 2	00
Activity 3	00
Activity 4	00
Activity 5	00
Activity 6	00
Activity 7	00

Donors/Source of Fund	Account Code
Joy Development Organization	00
PIN	01
CSSP	02
RC	03

1-10. PURCHASES

Procurement Policy & Procedure

Introduction

- Purchase can be divided in to three major areas.
 - a) Fixed Assets
 - b) Materials, spares & consumable
 - c) Services (Such as contract works)Purchase may be either local or foreign.
- Purchasing procedure may vary with the nature of the purchase & its value. Certain key procedures are common to all purchase transactions.
 - a) Identification of a purchase requirement (Purchase requisition)
 - b) Selection of a supplier
 - c) Authorization of the transaction
 - d) Ordering
 - e) Reception of the goods & services
 - f) Payment

Objectives

- The primary objectives of purchasing are
 - a) Necessary items are purchased as cheaply as possible.
 - b) Items purchased are of the right quality.
 - c) All purchases are made through clearly defined procedures to insure orders are not duplicated.
 - d) Stocks of materials, spares and other supplies are sufficient for the effective operation of JDO.
- In general the Tender Committee is responsible for the procurement of materials, Spare parts, fixed assets & others.
- The purchaser is not the member of the Tender Committee.
- The Finance officer is responsible for the authorization of purchase & the payment of purchase invoices.

Authorization Levels

- All purchases must be within the approved budget levels of each unit.

The Executive Directors must approve all domestic purchases.

13.3.2 The Board of Directors must approve all foreign purchases.

Procurement Procedures

Purchase requisitions

- All purchases of Fixed Assets, materials, spares, services & other supplies will be initiated by purchase requisition.
- The following information will be included on the purchase requisition whenever possible.
 - a) Originator department/section
 - b) Description of items (with detailed specification)



c) Quantity

- Two copies of the purchase requisition are prepared by the originator department & authorized by finance officer and approved by Executive Director or his/her delegate. The original is forwarded to the Finance officer with a copy retained by the originating department/section.
- **Request for Performa (Statement of a current price of stock or commodities)**
- For all purchases over Birr 5000.00(Five thousand) quotations are required at least from three different suppliers to compare price, quality & delivery time.
 - The purchasing Committee and the finance officer maintain list of all major suppliers & formally invites quotations from selected suppliers.
 - The Purchasing Committee prepares request for quotation from the information included on the purchase requisition stating.
 - a) Description of items
 - b) Quantity
 - c) Delivery date
 - d) Terms of payment
- When the Finance Officer finds it important, she/he can assign advisory person to look in to different suppliers prior to tender committee for checking up the prices and quality of the needed materials.
- In line with the annual plans of JDO, purchasing of the needed materials should be programmed. Hence, it is advised to run the purchasing activity once in a quarter. But this doesn't mean that purchasing would not take place when need arises.

Tender Procedures

- All one time and one type of material purchases that require over Birr 150,000.00(one hundred fifty thousand) affected on tender basis.
- Purchases more than Birr 5000.00 needs Performa invoices sealed & preferably waxed to be collected by the Tender Committee.
 - Tenders can be either from the short list of previous suppliers who have good reputation with JDO(closed tender) or inviting suppliers by mass media(open tender).
 - The Purchaser should not hold in hand the amount exceeding ETB 10000.00(ten thousand) for a purchasing purpose.
 - The sealed envelopes for purchases are opened by Tender Committee.
 - Tender Committee will be nominated by the Management Committee. There will be three regular members and one alternative member that will be delegated by Executive Director or her/his delegate depending on the type

of materials to purchase.

Store Management

The Stores Management involves both keeping stores materials & stores records.



It includes the management of fixed & non-fixed asset.

General Principles

- Records are kept of when materials are received by JDO, transferred to stores, issued for use, and remaining in stores.
- A purchase requisition is prepared and processed by storekeeper. The receipt of all items received from suppliers is recorded on Goods Received Notes.
- The issue of all items from stores for consumption & use is evidenced by stores issue notes.
- Quantities of all materials & spares are recorded on "Bin Cards" in stores and "Stocks Ledger Cards" maintained by Finance officer. Details of all items received, transferred or issued are recorded so that any time the quantities recorded on the Cards agree with the physical quantities in the stores.
- Good Store keeping involves storing materials so as to achieve the following objectives.
 - a) Immediate location of required materials
 - b) Speedy receipt & issue of materials
 - c) Full identification of all materials at all items
 - d) Protection of materials against deterioration & all hazards.
 - e) Economical use of storage space
 - f) Recording of all physical movements
- Control over the physical quantities in the store of JDO at any time established with perpetual inventory system. With a perpetual store check system, quantities in stock are recorded after every receipts & issue to ensure that the balance recorded on the Bin Cards & stock Control Cards agrees with the physical balance in stock. The store personnel essentially undertake this procedure.
- Periodic stock counting is undertaken by the Finance officer as an independent check on the efficiency & accuracy of the maintenance of the stores records.

The Executive Director or her/his delegate will assign the inventory committee

Goods Received Notes (GRN)

- All goods received are entered on a goods receiving note. The GRN is a pre - numbered voucher. The storekeeper will enter the following details.
 - a) Date of receipt
 - b) Purchase orders No.
 - c) Supplier
 - d) Carrier
 - e) Stock number
 - f) Description of goods
 - g) Unit of goods
 - h) Quantity received
 - i) Unit Price
 - j)

Store Request

Whenever materials are requested by approved store requisition then the

storekeeper will prepare store issue voucher. If the required materials are not available at store, the storekeeper will prepare purchase requisition.

Purchase request for an item is prepared & signed by the storekeeper and authorized by the Executive Director or her/his delegate.

Store Issue Voucher (SIV)

- Materials are issued from store for consumption or use in response to a store request.

Bin Cards

• Materials are kept in appropriate bins. For each kind of materials a separate record kept by the store person on a Bin Card. This shows in detail receipts & issues.

• The bin cards are updated at every receipt or issue from the store. The reference number of the goods receiving note and store issues note are entered for each movement.

Stock Control Card

- A Support & control of the Bin Card system are the stock control cards kept by the finance unit.
- A stock control card is kept for each stock item.

Donated Goods

- For all donated items GRN must be completed in the stores in order to acknowledge receipt.

If the item received in the form of donation has no established values, the value of the goods should be assessed & estimated by the inventory evaluation committee.

1-11. Fixed Asset Management

Fixed assets are properties having a useful life of more than one year and acquire for the organization use. The organizationA holds fixed asset in the form of vehicles, furniture, equipment building etc.

Fixed assets management is an accounting process that seeks to track fixed assets for the purposes of financial accounting, preventive maintenance, and theft deterrence.

So, to track the location, quantity, condition, maintenance and status of the fixed assets including physical items, which are acquired by donation/grant or purchases in the amount which exceed ETB 1,000 with a service period more than one year, the organization use a fixed asset register and serial numbered Asset Tags and annually take fixed asset count and produce a report.

Policies

- All fixed Assets are recorded in the books of account at cost. All fixed assets depreciate on a straight-line basis.
- All tangible Fixed Assets will be individually identified & recorded in a Fixed Asset Register.
- Each Fixed Asset recorded in the Fixed Asset Register has an individual Asset Number which defined the department, location & asset type to assist the physical identification of the asset.

- Fixed Assets recorded in the Fixed Asset Register are physically verified at regular intervals & at the end of each fiscal year.
- At the end of its useful life, a Fixed Asset may be written off, sold or scrapped or transferred if still functional.
- In addition, Fixed Asset may be transferred from one location or department to another. Written Authorization procedures must be followed to accomplish the above-mentioned activities.

- A Fixed Asset register or database is to be maintained by the Financial Officer for all fixed assets purchased by the organization and from donation.
- The register should contain the following information:
 - Date of purchase
 - Description of item purchased
 - Received by donation or purchased
 - Cost or fair market value on the date receipt
 - Donor or funding source, if applicable
 - Funding source restrictions on use or disposition
 - Identification/serial number (if appropriate)
 - Depreciation period, , if applicable
 - Warranty period
 - Inventory tag number (all fixed assets should be tagged with a unique identifying number)
- At least annually, a physical inspection and inventory should be taken of all organization fixed assets and reconciled to the Fixed Asset register.
- Any dispositions process is required to follow the law of Chsa.
- The Finance Officer should be informed, in writing, via an interoffice memorandum of any material changes in the status of property and equipment. This should include changes in location, obsolescence of the items and any

Disposal of fixed asset

When fixed assets are no longer useful because they are worn out obsolete, they may be discarded, transferred to other users, sold or traded in the purchase of new plant and equipment.

Procedure for disposal of fixed asset

The procedure for disposal of fixed asset should be as follows:



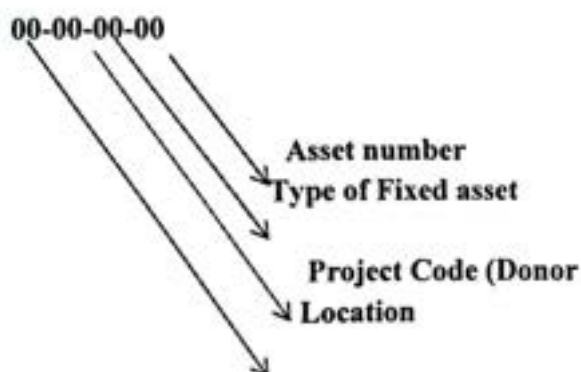
- The Executive Director of the organization should be responsible for proposing in writing the disposal of fixed asset, which has to be, approved the Board of Directors and then inform to Chsa.
- Disposal of fixed asset should be done after obtaining approval from government agency. i.e., charities and societies agency

Fixed asset register

- Register of fixed asset should be maintained fixed values of more than birr 1000 as per ChSA and the life of more than one year should recorded in the register.
- The register should contain all assets physically existing, the cost , the source ,purchase references, the tag number, location, employee responsible for the asset ,date of acquisition, etc.

Fixed Asset Code

Fixed assets in the organization are given tag/code numbers to easily identify their location and other control purpose. The coding is as follows.



Categorization of fixed assets

The following codes are recommended for the fixed assets of the organization and signify:

Location

- Executive Director Office------(ED)
- Program Unit------(PU)
- Finance and Administration ------(FA)
- Social Work Unit------(SU)
- Metal and wood work unit------(MW)
- Tailoring unit------(TU)
- Food unit------(FU)
- General Service ------(GS)



Type of Fixed Asset

- Office furniture------(OF)
- Office equipment----- (OE)
- Computer and accessories----- (CA)
- Workshop Equipment------(WE)
- Tailoring Equipment ----- (TE)
- Food Equipment------(KE)
- Buildings------(BL)
- Motor vehicle------(MV)
- Other fixed assets------(OA)

Donor code/project code

- JDO-----SD

Asset numbering

Assets will be sequentially numbered according to their type

Example: ED-OF-SD-01

Depreciation of fixed assets

The rate of depreciation per annum for each category of fixed assets is given below. The rates should be applied consistently from year to year.

	<u>Rate per Annum (%)</u>
Building	5
Furniture, Fixture and Equipment	10
Machinery and Equipment (garage)	12
Motor Vehicles	25
Soft Furnishings	10
Glass Wares, Silver Wares and Porcelain	30
Other Fixed Assets	10

Payment for fixed assets

Purchases of fixed assets shall be processed in accordance with the purchasing procedures.



The financial unit must make sure that the following documents are attached with the payment voucher.

- The original invoice
- Store receiving voucher
- Store issue voucher

1-12. Inventory Management

- Inventory management is the process of **Acquiring, Storing and Distributing** materials to achieve defined objectives.

The Objective of Inventory Management is to explain the method to handle stocks systematically by having:

- an orderly layout of the stores,
 - uniquely identifying all areas of the stores facilities, safe storage of all materials,
 - well documented process for receiving and issuing of goods,
 - maintaining well organized inventory records, and
 - producing various management information on the operation of the stores/inventory control functions.
- A physical inventory of assets shall be taken at least once a year. The count shall be checked against the assets registered. Any shortage damage found should be reported to the management immediately
 - At a close of projects or when there is a change over storekeepers, custodian's physical inventory shall be taken and checked against the registration. At a time of counting stock taking committee shall be established.

Document Used inventory Management

- Receiving Goods:
Goods Receiving Note (GRN)
- Issuing Goods:
Store Issuing Voucher (SIV)
- Inventory Records:
Stock Card-Keep by finance
Bin Card-keep by store keeper
- Physical Inventory :
Stock Count Sheet

1-13. INTERNAL CONTROL

Internal control is the name given to the systems that are operated internally within the organization in order to ensure that JDO can demonstrate to both its donors and beneficiaries that

their property is safe. Internal control procedures can also give comfort to staff as they can provide some protection from suspicion.

Budget

General

What is a Budget?

- A budget describes an amount of money that an organization plans to raise and spend for a set purpose over a given period of time.'
- Financial budget is a summary of planned financial revenue and expenditure for a given period or project prepared and approved before the period or project begins;

A budget has several different functions and is important at every stage of a project:

- Planning

A budget is necessary for planning a new project, so that managers can build up an accurate idea of the project's cost. This allows them to work out if they have the money to complete the project and if they are making the best use of the funds they have available.

- Fundraising

The budget is a critical part of any negotiation with donors. The budget sets out in detail what the CSO will do with a grant, including what the money will be spent on, and what results will be achieved.

- Project implementation

An accurate budget is needed to control the project, once it has been started. The most important tool for on-going monitoring is comparing the actual costs against the budgeted costs. Without an accurate budget, this is impossible. Because plans sometimes change, it may be necessary to review the budget after a project has started.

- Monitoring and evaluation

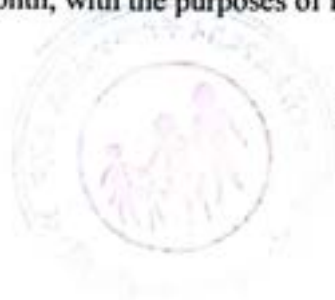
The budget is used as a tool for evaluating the success of the project, when it is finished. It helps to answer the question: 'Did the project achieve what it set out to achieve?'

MAIN TYPES OF BUDGET

Income & Expenditure: This budget lists all items of incoming funds and recurrent (i.e regularly occurring) costs for a specified period.

Capital: This budget lists one-off expenditure for expensive items such as equipment, property, vehicles, or major building works, which will be used over several years.

Cash forecast: This budget shows the predicted flow of cash coming in and out of the organization each month, with the purposes of identifying periods of cash shortages or surpluses.



BUDGET STATUS

Balanced: This budget shows that anticipated income is the same as anticipated expenditure

Deficit: This budget shows that anticipated income is less than anticipated expenditure

Surplus: This budget shows that anticipated income is more than anticipated expenditure

APPROACHES TO WRITING A BUDGET

Incremental: This describes an approach to budgeting where the calculations are based on previous year's budgeted or actual figures, with adjustments for new activities or known changes

Zero-base: This describes an approach to budgeting where the budget is built from 'scratch', and not based on previous budgets or figures.

Activity based: This describes an approach to budgeting where the budget is built up from a detailed activity plan (a form of zero-base budgeting).

LEVEL OF BUDGET DETAIL

Master: This budget shows overall anticipated income and expenditure for the whole organization for the year.

Consolidated: This brings together several project or program budgets in a table to show a summary of each and the total overall.

Project or program

This budget shows income and expenditure for a specified project or program for the implementation period.

TIME PERIODS

Multi-year: This budget outlines anticipated income and expenditure, or cash flow, for two or more successive years.

Phased: This describes a budget which has been broken down into smaller time periods – usually monthly or quarterly – to reflect the budget requirements for that period, according to levels of activity.



SPECIALISED BUDGETS

Donor: This budget is produced in the format required by a funding agency and usually accompanies a funding proposal.

Flexible (variable): This budget is regularly reviewed and regularly updated to take account of changes in levels of activity

Funding grid: This is a special budget which sources to the program budget is funding what, and identifies funding gaps.

Funding Grid Tool

A funding grid (also called a Grant Schedule or Income Allocation Grid) is a critical tool for strategically managing income from a number of different sources.

For example, a CSO might have grants from several different donors plus individuals, bank interest, sponsorship income and consultancy fees.

Challenges of managing multiple grants

- It is not always clear which source of income is paying for what activity and whether funds are being used to their best effect.
- Grants are applied for and received in different currencies
- Grants are awarded for different timeframes
- Different donors use different budget formats
- We therefore need a tool that brings all information together to give a strategic overview of incoming resources.

What does the funding grid do?

- A funding grid (or income allocation grid) gives a strategic overview of how an organizations income is allocated. It is useful because it:
- Makes sure that no activities are funded simultaneously by more than one donor – ie to identify instances of 'double funding
- Helps you to make optimum use of restricted funds
- Helps in making decisions on how to allocate unrestricted funds
- Helps identify gaps in project funding, especially overhead costs

Rolling: This budget always covers a fixed period of months (e.g 12 months). It is updated every month for the fixed budgeting period.

Budgetary Control

In the context of this financial status of JDO a budget is a plan expressed in terms of money for the purpose of coordinating various activities.



Objectives of budget control:

- To provide detailed plan of action
- To coordinate the activities of JDO to achieve efficient utilization of resources
- To provide a means of determining responsibility for any deviation from plan and provide information to enable that the necessary corrective action shall be taken in time.

Budget preparation

JDO prepares plan of operation and budget based on the estimates often itemized, of expected income and expenses, for a given period of time, currently for Three years for sustainable programmers/projects that will be ranked for priority and appealing to donors funding. In doing so, the following points should be recognized.

- The budget covers one fiscal year starting from **January 01 to December 31** and for a **project a project completion period**;
 - The budget will be based on the goals and objectives to be achieved in a given year or project;
 - Budget proposals are prepared by each department and reviewed by the Management Committee. The consolidated budget by the Executive Director will be submitted to the Board for final approval.
-
- To carry out activities planned, the team prepares a breakdown 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 in kind, free services, internal revenue generations, etc., are incorporated.
 - After the overall project budget is determined it is broken into individual financial year budget. The long-term forecasts are reviewed and revised to reflect current situations.
 - The annual budgets are prepared to control and monitor the annual revenues and expenditures.
 - The income and expenditure budget 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 Administrative expenditure (Capital Expenditure and overheads.)
 - The income budget is prepared by program unit along with Finance Unit using the most up-to- date information including membership contribution, grants and donations, internally generated income, etc
 - Proposals for new project/program, major fluctuation in price, significant components and changes to existing Programmes may necessitate a budget revision. After preparation of the budget, a recommended revised budget shall be sent to the donors at the earliest opportunity in order to obtain approval before implementation.



- The budget committee/planning team shall review and recommend to the management of the organization for approval of the budget two weeks before the end of the current period.
- The approved budget shall be communicated to the respective cost centers, departments or projects a week before the start of the new budget year.
- A detailed budget shall be verified and approved by the Executive Director .

Budgetary Discipline

- The approved budget shall constitute the authorization to incur obligation up to the monetary limit of the budget.
- No cost shall be incurred unless approved in the budget.
- There shall be flow of budgetary information to budget implementers.
- Budget Monitoring shall be made to prevent over and under expenditures for prior management action.
- The finance head is required to submit a quarterly Cumulative Comparative Budget Report prepared to indicate budget variances, i.e., comparing actual expenditure with plan. If the variances are 15 % or more both ways, the reasons shall be fully and clearly stated and communicated to get approval.

Overall budget control

- Once the budget has prepared and approved the finance unit shall start the task of recording and compare it with the budget for any variance. Any substantial variance be carefully investigated by the accountant and reported to the finance head who immediately informs the case to the management bodies
 - At the end of every quarter, the finance unit shall prepare a budget comparison report to the management.
 - Internal audit system shall be used as balance and check
 - In case of shortage of funding or essential requirement of additional expenditure beyond allowable limit, the Management may require to revise the approved budget at any given period. In such cases, the revised budget to be placed before the Executive Committee and respective donor for its approval and onward implementation.

Cash Management

○ General

- Cash management is a prime concern for every organization because of the need to effect payments as and when they are due. The optimal utilization of this scarce resource to the best benefit of the organization requires its proper management;
- Management and control of cash is essential to;

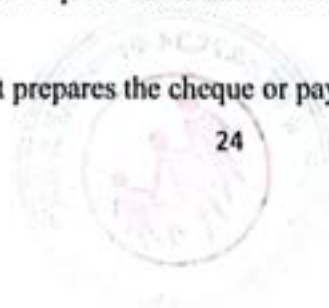
- ✓ Prevent losses, theft and misappropriation of cash;
- ✓ Provide accurate records of all cash collections, disbursements and other transactions;
- ✓ Provide accurate and timely information about cash balance to enable management to take appropriate action.

Cash Collection Procedures

- All collections shall be made on pre-numbered official organization's receipts signed by Cashier;
- Cheques received must be in the name of the organization;
- All such collections shall be deposited in Bank immediately unless the condition does not permit to do so;
- All bank deposits shall be evidenced/ supported by Bank advice;
- Payments should not be effected from collections;
- Cash receipt vouchers pads shall be printed pre-numbered and used sequentially;
- Cash receipt vouchers pad shall be verified for correctness on receipt from printers and kept by a responsible official;
- Issuance of cash receipt pads to the cash collector shall be against a signature and after receipt of previous issues;
- The custodian of unused pads shall maintain an up to date record of receipts and issuance of the same;
- A physical count of the documents should be taken at least once a year and compared with the records.

Projects/programs expenditure

- The Executive Director and the Admin & Finance officer of JDO shall authorize all payments in relation to project/program expenditures
- The base for payment to project expenditure shall be the budget agreed with the donor.
- The payment requests, after being signed by the Program Manager, shall be forwarded to financial officer along with relevant project file for verification.
- Finance officer shall analyze the payment request and the project file to ensure the expenditures, which are in line with the approved budget and other relevant supporting documents, shall be attached
- The payment request form after being initialed by the Finance officer shall be presented to the JDO Executive Director for approval
- The approved payment request form shall then be forwarded to the finance unit for payment.
- The Cashier/ accountant prepares the cheque or pay in cash for the intended purpose



General Precaution Measures

On Cash

- The cashier deposits all cash/cheque receipts in bank and prepares daily cash movement report next morning for Management consumption.
- The Finance officer checks the report for its correctness and prepares weekly summary report to Management team consumption.
- The Cashier shall balance cash on hand and cash book daily.
- Person appointed by the Finance Officer shall do surprise Cash count as appropriate.

On the Petty Cash Fund

Definition of Petty Cash:

Petty cash is an imprest fund that is used only for expenditure of an incidental nature. An imprest fund is a fund established for a fixed amount that is replenished in the exact amount expended from it.

Purpose of Petty Cash

The petty cash fund is established in the management committee to improve the efficiency of the JDO's operations. These funds are available to purchase minor items when it would be otherwise impractical to purchase items through the usual procurement methods.

Policy

- The Finance Officer authorizes and the Executive Director approves payments from petty cash fund.
- Payment from petty cash fund must not exceed birr 1,000.00 for any one single payment.
- The cash or paid voucher or a combination of both in the possession of the petty cashier at any time should be equal to the fund level.
- Segregate petty cash funds from other collections of cash.
- Ensure that the entries in the Petty cash payment vouchers/ PCPVs/ are completed in ink and the amounts in words and figures must be the same.
- Unless amended otherwise, the petty cash fund shall not exceed Birr 10,000.00;
- The petty cash shall be maintained in the name of the Cashier (Administrative Assistant);
- Petty cash fund shall be established on an 'Imprest System' where the fund shall be replenished to the extent of the actual amounts disbursed from the fund (eg. when at least 75% of the fund has been used);
- Surprise cash count may be conducted by the Finance officer or an assigned person to make sure that the petty cash system is operating properly ;

- *The Petty cashier is allowed Cash Indemnity Allowance of 100 Birr per month to cover any inadvertent cash shortage encountered while effecting payment;(if applicable)*
- Petty cash payments should be effected after verifying the supporting documents and approval of the appropriate official;
 - Advance payment from the petty cash fund, should be recorded on the petty cash suspense voucher (cash advance form). The advance, however, needs prior approval;
 - All payments held as suspense, have to be settled not **later than 3-4** days after the date of payment with valid supporting documents;
 - Petty cash book shall be maintained by the petty cashier and show the petty cash balance on hand after each payment;
 - The petty cashier shall prepare in two copies a summarized report of the petty cash utilized on a "Petty Cash Replenishment Format" attaching all valid supporting documents;
 - The Accountant investigates the authenticity of the report presented by the Petty Cashier and after reaching an agreement on the petty cash report; the Petty Cashier and the Accountant shall sign on both copies. The original remains with accounts and the copy goes to the cashier as evidence of liquidation;

On petty cash payment vouchers

- Petty cash payment vouchers should be prepared in two copies. They should be pre- numbered and printed.
- Petty cash payment vouchers should be completed in ink.
- Signatories of the petty cash fund must be the Executive Director and the Finance Officer.

On Petty Cash Replenishment

- Petty cash payment vouchers and supporting documents should be received before replenishment.
- Replenishment of petty cash fund should only be made by cheque.
- Make sure that the cheques for petty cash replenishments are made to the request of the petty cashier.
- Petty cash payment vouchers and their attachments should be stamped either "Paid" or "replenished" immediately after a replenishment cheque is signed by the Finance officer.
- After signing on the cheque payment vouchers, replenishment cheques should be collected by the cashier.
- Petty cash fund should be kept in safe.

On Bank accounts and cheques

Operation of Bank Account

- JDO has an official bank account in Commercial Bank of Ethiopia Hawassa Branch and United Bank SC.
- Authority for the opening or closing of JDO Bank Account, appointments or removals of signatories to the opening accounts and assigning limits of authority of the signatories shall be vested with the Board of Directors and approval by concerned government bodies.
- Bank account signatories of the organization shall be the executive director and Finance officer.
- Any cheque issued by JDO in settlement of its obligation must be signed by two officials designated to do so.
- Cheque received from third parties must be deposited immediately on receipt.
- Request for cheque books from Bank should be lodged with the Bank in good time so that JDO does not run out of cheque books before new ones are received.
- On receipt of ordered cheque books from Bank the number of check leaves should carefully be checked.
- Checks & Bank payment vouchers must be used in sequential order. Cancelled cheque must be void kept pinned to the cheque stub.
- Whatever the reason for payment, there must always be an initiating document which should be checked & authorized by respective person.
- With respect of single payments for purchase of goods and/or services, the basic documents required could be Goods Receiving Notes, purchase order, supplier's invoices, etc.
- The cashier/accountant should prepare cheque when ordered by authorized person when letter of request made by.
- Make the recipient of the cheque sign on the Bank payment voucher.
- Before signing a cheque, the following should be checked by the signatories:-
 - a) Bank payment voucher has been completed and fully authorized
 - b) Original backup (supporting documents) attached and the value of the cheque equals to the amount of the documents.
 - c) Amount is included in the budget.
- If the payment is made personally, the Bank payment voucher should be signed by the recipient of the cheque. Where possible a receipt should be obtained for the payment made.
- A register of unused cheque books (pads) should be established & the cheque book currently in use a secure place. Request for a cheque book must be placed two weeks before it is totally finished.
- No blank cheque must be signed nor cheques made payable to cash or self.
- Cancelled cheques should be retained & filled in order.

Bank Advices

- Bank advices are used as evidence for funds transferred from and received to JDO bank accounts.
- When cash and cheques are taken to the bank for paying in to JDO account the bank will issue a deposit slip (advice) as acknowledgement of the receipt and will provide it to the person paying the money
 - Only one cheque book for one account shall be used at a time;
- Never accept post-dated cheques
- Search for forgeries and fraud on cheques to be received
- Ensure receipts of daily cash and bank position reports
- Notify management team on bouncing cheques
- An accountant independent of cash and cheque collectors, and cashiers should do bank reconciliation.
- Postdated cheques, disputed items, unidentified receipts of cheques and the like should be forwarded and investigated by persons independent of preparation of deposits and posting of accounts.
- Cheque pads shall be verified for completeness upon receipt from the bank;
- Cheque pads shall be collected from Bank by one of the authorized signatories after necessary verification. They shall be handed over to the Finance Officer in writing with his/her signature taken as acknowledgement of receipt or by delegated appropriate staff from finance.
- A register shall be kept to record the movement of cheque books;
- Cheques shall be issued chronologically from the smaller number onwards and used cheque pads shall be filed similarly;
- Unused cheque pads shall be kept with the finance officer, i.e. the signatory will deliver the cheque books to the finance officer after receiving the cheque book from the bank;
- Missed cheque book or leaf/leaves shall be reported to the bank immediately quoting the serial no. and request not to effect payment;
- Used cheque book stubs should be filed by the Finance department.

Cheque Payments

- All payments in excess of **Br. 1000** shall be paid by cheque;
- Cheque shall be prepared against source documents upon approval of the responsible official;
- Cheque payments shall be evidenced by a pre-numbered printed payment vouchers in two copies;
- All cheque payments shall be with the approval of two authorized signatories;
- Cheque shall be issued only in the name of the payee;
- Every payee has to produce receipt against the cheque issued in his/her name. If this is not possible the payee has to sign on the contract agreement and payment voucher;

- Cheques those are not valid for payments have to be canceled and stamped "VOID" in ink and have to remain undetached from the pad;
- No signatory shall sign on blank cheque;
- No cheque shall be approved unless sufficient fund is available in Bank;
- Cheques prepared and kept in suspense ought to be cleared within **10 days** from the date of payment;
- Payments in cheque shall be recorded on payment vouchers and the supporting documents shall be attached to evidence the payment;
- The payment in cheques shall be recorded in the ledgers on appropriate account codes;
- The Balance of Cash in Bank shall be reported to the Executive Director on **daily / weekly basis**.

Bank reconciliation

- A Bank Reconciliation statement is prepared to reconcile the differences between the ending balance of bank statement and books of JDO and the difference may arise because of delay in either parties in recording a transaction or an error.
- Bank accounts should be reconciled with the records of JDO as soon as the 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.
- Statement of bank reconciliation (annex-) will be prepared on the basis of the following documents:
 - CRV (cash receipt voucher) –summarized
 - Deposit slips (summarized)
 - Bank debit & credit advices (summarized)
 - Check payment voucher – summarized
 - Check stubs and list of voided cheques.
 - Previous month (s) bank reconciliation statements.
- Bank reconciliation shall be made **every month**;
- All accounts will be reconciled no later than **4-6 days** after receipt of the monthly bank statements;
- Bank Reconciliation shall be done by accountant,
- Bank statements are to be received by the authorized personnel;
- Completed bank reconciliations shall be reviewed and approved by the Executive Director or her/his delegate or Finance officer.
- The Accountant prepares general ledger adjustments from the Bank reconciliation;

8. Advance Payment

- For contracted work, money could be advanced to the contractor in accordance with the contractual agreement signed between JDO and the contractor upon a written recommendation of the supervisor for contracted work. The contractor should sign on the advance payment form for the money paid in advance. Otherwise the contractor will be given a cheque by signing on CPV for receiving cheque.
- The money paid in the form of advance should be settled by presenting authenticated (genuine) receipts just after the accomplishment of the contracted duty.
- Money advanced for a particular purpose could not be used for settling another advance.
- An amount of advance given for a specific purpose cannot be settled partially at different times. (It should be settled at once). Settled partially
- Advance voucher will be cancelled when settlement of the advance is made.
- If the purchase or the work for which the money is taken in advance is delayed/cancelled fully or partially then the fund should be returned to the Cashier or Bank immediately.

Purchase Advance

- The purchaser or any other authorized person shall handle this fund not more than 10,000ETB.
- There should always be an approval for an advance or payment for purchase out of the fund.
- The relevant documents such as authorized requisitions & purchase orders should be presented for making any payment or advance from the fund.
- Previous advance should be cleared within five days before new ones are made to the same purchaser.
- After the purchase has been made, the purchaser shall arrange the relevant documents evidencing the carrying of normal purchasing procedures as well as for effecting payments evidencing them with relevant supplier's invoices, cash receipts and Goods Receiving Notes (GRN).She/he has to prepare a purchase fund declaration statement when several items of purchases are involved.

Travel Advance

- Person authorized to approve travels shall carefully evaluate the necessity of travel and number of days required;
- Travel advance shall be paid as per approved travel request form accordance with the budget and the organization's per diem and accommodation rates (*If few rates are exists in the organization indicate clearly the per diem and accommodation rate and how shall be presented*) ;
- Travel advance shall be settled with the user producing valid receipt. If receipt is not available, the organization will provide appropriate forms to be filled in and serve as receipts;
- An employee shall not be given second travel advance before settling the previous one;

- Reimbursement will be based upon current travel policies and receipts must be attached to the expenditures;
- Per-diem shall be paid whenever an employee is on a travel status to undertake official tasks requiring overnight or full day stay outside the town/city of his/her residence;
- Per diem shall be authorized by the line executive based on the submission of detailed travel and work plan by the staff concerned;
- Per-diem payments are intended to cover food, lodging and other incidentals;
- The organization per-diem rates shall be as determined by the Board of Directors;
- The immediate supervisor of the employee concerned shall ascertain and certify that the assigned duties are properly carried out before the advance given as per-diem is considered settled;
- Assignments that entail per-diem payment must be approved, based on such authorization, advance payments would be effected by Accounts for per-diems, transport and related costs. The person concerned shall settle the advance payment within **2- 4 days** of return;
- The travel settlement form should be completed by the traveling staff and submitted to Finance unit in order to facilitate the settlement of the advance.

9. Staff Loan

Policies

- If a staff encounters a justifiable problem that may require a financial support she/he can take a maximum of one-month salary as a loan with the approval of the authorized person or her/his delegate from specified source of fund.
- One-month salary loan is considered as long-term loan & it should be returned by deducting $\frac{1}{4}$ (One fourth) of the basic salary starting from the next month of the loan request.
- The loan application should be addressed to the authorized person for her/his approval,
- The loan application should describe why the loan is required & how it will be repaid.
- Request for the loan is subject to approval depending on the availability of the fund & the need of the applicant.
- When such long - term loan is granted to the staff a separate cheque should be prepared for the total amount of the loan approved.
- If one-month salary is given for employee as a loan it should be settled (repaid) within the requested budget year of JDO. Otherwise the loan will be transferred to the next budget year as receivables.
- Short-term loan should not be more than $\frac{1}{3}$ (one third) of the basic salary of an employee and it should be settled with the maximum of two month.
- All previous loans taken either as short term or long term should be settled before applying for another loan.
- Loan under nominated petty cash level will be paid from petty cash.
- In addition to the short - term & long - term loan, loan requested for special circumstances can be considered if and only if the request is for special purpose.

1-14. Insurance

- The organization shall have 3rd party Insurance coverage for its personnel and property against possible risks;
- All Insurance policies shall be reviewed periodically, at least once a year, to determine the accuracy of the cover;
- For convenience, the period of insurance coverage shall coincide with the financial year of the organization.

1-15. SALARY ADMINISTRATION

- Salaries and wages shall be paid on working days monthly, at the customary place of payment. In case the payment date falls on Sunday or a public holiday, the day of payment shall fall on the preceding working day;
- No deduction shall be made from the wage and salaries of an employee except:
 - As provided by relevant government regulations;
 - When an employee fail to settle outstanding financial obligations to the organization directly by finance unit and;
 - Upon the explicit written authorization by the employee concerned.
 - When an employee face a fine due to disciplinary problem as stipulated in HRM policy of JDO
 - The Finance unit has to be notified about the following not later than the 15th of each Gregorian calendar month:
 - Newly employed workers;
 - Termination Report for employees terminated during the period;
 - Salary/Allowance Increment Notification;
 - Time worked Forms for hourly or daily, part time and temporary workers for works done during the period.
 - Finance unit shall deducted salary advances in respective monthly salaries.
 - Finance unit shall finalize payroll preparation until 25th of each month.
 - Payroll pay day shall be between 25th to end of each month.
 - Salary reconciliation will be done by finance officer every month to see the difference in salary between two consecutive months to be submitted to the Executive director for information

1-16. Managing Audit

An audit is an **independent** examination of records, procedures and activities of an organization, resulting in a report on the findings.

There are two kinds of audit:

- ☞ The Internal Audit
- ☞ The External Audit

Internal audit

Internal audit involves a structured review of systems and procedures, as set by the Board and managers, to ensure efficient and effective practice.

The internal auditor's report will highlight findings and make recommendations for action, where needed. It may be carried out by someone within the organization, or an outsider may be engaged to carry out an 'internal audit'. An internal audit includes a range of checks as part of independent review including:

- financial accounting systems and procedures;
- Management accounting systems and procedures;

The internal auditor reviews the adequacy of the design of the systems of procedures and checks that they are being appropriately implemented.

A report is presented to the Board of Directors and the management who is responding by taking corrective action, perhaps changing a procedure or training a staff member.

The Three E's influence an internal auditor's approach:

- Economy: paying no more than necessary for the resource needed
- Efficiency: getting the greatest benefit with the fewest resources
- Effectiveness-how successful we are at meeting objectives or 'doing the right thing'

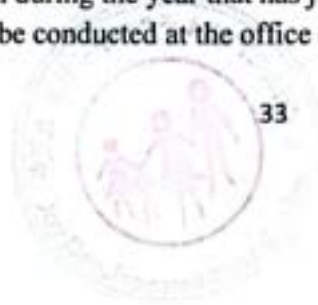
External audit

An external audit is an independent examination of the financial statements prepared by the organization. It is usually conducted for statutory purposes (because the law requires it).

The purpose of it is to verify that annual accounts provide a true and fair picture of the organization's finances; and that the use of funds is in accordance with the aims and objects as outlined in the constitution.

Policy

- The organization shall have its annual reports audited by external auditors;
- A Chartered Accountancy firm with license from concerned government body for fulfillments of statutory requirements must complete annual audit of accounts.
- External auditors shall be appointed by the Board of Directors.
- Management shall summon Auditors for inspection of financial activity of the organization during the year that has just ended;
- Audit shall be conducted at the office of JDO.



- Management shall discuss with Auditors on the draft audit report regarding items that need explanation;
- Official audit report shall be released after agreement has been reached between management and auditors on the draft audit report;
- All suggestions given by auditors for the improvement and correction of the accounting system ought to be implemented without delay;
- The final audit report shall be sent to the various stakeholders and donors based on the instruction of the Executive Director of the organization.
- Separate audit could be conducted based on donors' interest.
- The finance head should prepare all the necessary documents for auditing

Auditor's Checklist

A. Primary records of account:

- Cash Books completely up to date to the year-end
- File of invoices/vouchers for all items of expenditure
- File or book of receipts for moneys received
- Bank statements, paying in slips and cheque books
- Wages book and records
- General Ledger, if kept

B. Summaries and reconciliation statements:

- A Trial Balance and/or a summary of all receipts and payments by budget category
- Bank reconciliation statements for all bank accounts at the year- end cut-off date
- Petty cash reconciliation statement to the year-end cut-off date
- Stock sheets

C. Schedules:

- Schedule of Creditors (money owed by the organization)
- Schedule of Debtors (money owing to the organization)
- Schedule of Grants Due
- Schedule of Grants Received in Advance
- Fixed Assets Register

D. Other Information:

- A letter from bankers to confirm balances [this will be requested by the auditors themselves]
- Constitution of the organization
- List of Committee members and staff
- Minutes of Board and management meetings
- Donor agencies funding agreements and audit requirements



Auditor Opinion

Unqualified: The accounts do give a true and fair view – 'clean' audit report.

Qualified: Subject to -The accounts are basically OK, apart from specific identified issues, eg an incorrect accounting policy, or specific unsupported expenditure.

Qualified: Disagreement -There are so many errors that the accounts do not give a true and fair view.

Qualified – disclaimer -The auditors are unable to give an opinion, because the records are so poor or incomplete. This is very bad indeed.

1-17. Financial and Management Reports

Types of Reports

- The finance unit shall produce financial statements for external purpose comprising of :
 - Income and Expenditure Statement
 - Balance Sheet
 - Notes to the Financial Statements

Income and Expenditure Statement is a summary of Income and expenditure of an entity for a specific period of time, such as a quarter or a year.

Balance sheet is a list of assets, liabilities, and fund as of a specific date, usually at the close of the last day of a month or a year. Balance sheet presents the financial position of the entity at a given date. An integral part of balance sheet (or statement of financial position) consists of notes to the financial statements, which discloses important matters relevant to the figures reported in the balance sheet. The balance sheet is basically a historical report, because it shows the cumulative effect of past transactions and events.

Notes to the Financial Statements

These assists the readers for better understanding of the financial statements of the organization, Income and Expenditure and Balance Sheet statements should be accompanied by notes. The notes give details and explanations on the figures appearing in Income and Expenditure and Balance Sheet.

Timing of Reports

- Quarterly – activity report covering Cash Position, Revenue and Expenditures;
- Semi – Annually and Annually – Balance Sheet, Income and Expenditures and Notes;
- In the middle and at the end of the project -Project midterm and terminal reports

- In Addition to the above, financial reports shall be prepared for management and internal purpose monthly and for Donors as per agreed report date and when required.

Review of Financial Statements

The management team of the organization shall review the annual financial statement before realize to the third party including the external auditors.

Policy

- The Financial Department of JDO shall prepare Financial Statements such as Balance sheet, Income and Expenditures Statement and Notes to the Accounts and submit same to the Board periodically (quarterly) and as deemed necessary.
- Financial reports shall be produced periodically for management to enable them to take appropriate action. Such reports include, bank reconciliation, status of cash and bank position, physical verifications of fixed assets and any discrepancies between the recorded balances and physical counts, etc.
- Reports to Donors: Periodic financial reports/or as per the reporting schedule specified in the grant agreement shall be prepared by the Finance Department and sent to donors .
- Date for production of draft reports: The financial reports stated above shall be produced in draft form as per the grant agreement and government provisions.

Understanding Budget reporting requirement of charities and societies

Article 80- 91) of proclamation No.621/2019 also requires that “the officer of charity or Ethiopian Resident Society shall prepare and transmit to the Agency the annual activity report on the major activities and the relevant information regarding the Charity “one of the relevant information is believed to be the annual budget of the past and the subsequent of financial year.

The previous year’s activity report includes comparison of plan with achievement ,and similarly the comparison of budget with actual.

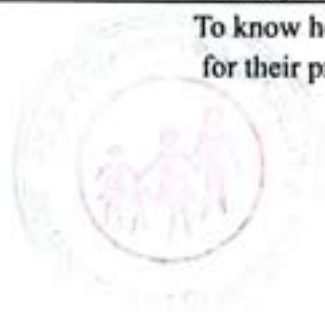
Major considerations in the preparation of Annual and Three year budgets

- Disclose source of income in detail
- Allocate 80% or more expenses to operating or project expense
- Allocate 20% or less to administrative expenses (Refer Art 88 of the proclamation No.621/2019).
- Show revenue intended to be collected from public collection separately in the budget and also show expenses to be incurred for public collection separately in the budget and
- Show the budget for sector administration separately

Stakeholder

Why do they need it?

- Project staff To know how much money and resources are available for their projects and what has been spent so far.



- **Managers** To keep an eye on how project funds are being used, especially compared to the original plans. To help plan for the future.
- **Finance staff** To make sure that there is enough money in the bank to buy the things the CSOs needs to run its programs.
- **Board of Directors** To keep an eye on how resources are being used to achieve the CSO's objectives.
- **Donors** To make sure that their grants are being used as agreed and that the project's objectives are being fulfilled. To consider whether to support an organization in the future.
- **Government departments** To make sure that the CSOs pays any taxes due and that it does not abuse it status as a 'not for profit' organization.
- **Project beneficiaries** To know what it costs to provide the services they are benefiting from and to decide if this is good value for their community.
- **The general public** To know what the CSO raises and spends during the year and what the money is used for.

Management Reporting

- Managers need financial information throughout the financial year to monitor project progress and manage budgets effectively. If reports are produced on a timely basis, any problems can be addressed early on and action taken to put things right.
- **How often?**
 - Ideally, the management accounts should be produced every month and within a few days of the end of the accounting period (any later and the information becomes out of date and less useful). The minimum frequency for management reports is once a quarter.

Which reports?

The main reports that will be useful to managers are the:

- Cash flow Report
- Budget Monitoring Report



- Forecast Report

The Cash flow Report

- The cash flow report is the cash flow forecast updated with actual receipts and payments each month, plus any new information about future spending or fund-raising plans. It allows managers to predict periods when cash balances are likely to be insufficient to meet commitments and make the most of any surplus funds during the year.
- Options available for managing cash flow include:
 - Exercise good credit control – chase debtors for prompt payment
 - Review grant schedules– encourage payment in advance rather than in arrears
 - Bank all monies received daily
 - Request special payment terms from major suppliers (and stick to them)
 - Pay certain overheads by installment – eg insurance premiums
 - Priorities major payments
 - Defer action that will lead to additional expenditure – eg recruitment, taking on leases, purchasing equipment
 - Negotiate an overdraft facility as short term – but expensive – remedy

The Budget Monitoring Report

The difference between the budget and the actual result is known as the *variance and this can tell us a lot about what is happening in a project. Variance figures will be positive negative or zero, depending on what has happened. Often, budget monitoring reports also show variances as percentages.*

- Budget monitoring reports help to identify problem areas and provide an early warning when key targets are not being met. They may also help detect fraud and errors in the accounts.
- *Budget monitoring report is prepared monthly by the finance officer and submitted to Program Manager*

Forecast Reports

- Forecast reports are especially helpful from the second quarter onwards for predicting the outcome for the year and helping with the budget process for the next year.
- With a fair degree of accuracy you should be able to tell whether the organization is going to run a surplus or deficit. This is all-important in your relationship with donors:
 - A large deficit can make the organization appear to be out of control and poorly managed
 - A small deficit can demonstrate a great need and even a sense of good housekeeping
 - A small surplus can suggest good management
 - A large surplus can indicate a failure to meet needs or inexperience in budgeting.



A note on Commitments

Commitments refer to (significant) expenses which have been incurred for a project or organization in a particular period but haven't yet been accounted for or belong to a future reporting period.

Commitments usually occur in a cash accounting system or where there are time delays in reporting all expenditure, eg from field offices.

Here are two solutions if figures exclude outstanding commitments:

- Include an extra column in the budget monitoring report to record known commitments
- Add a note about known commitments in the comments column or covering note.

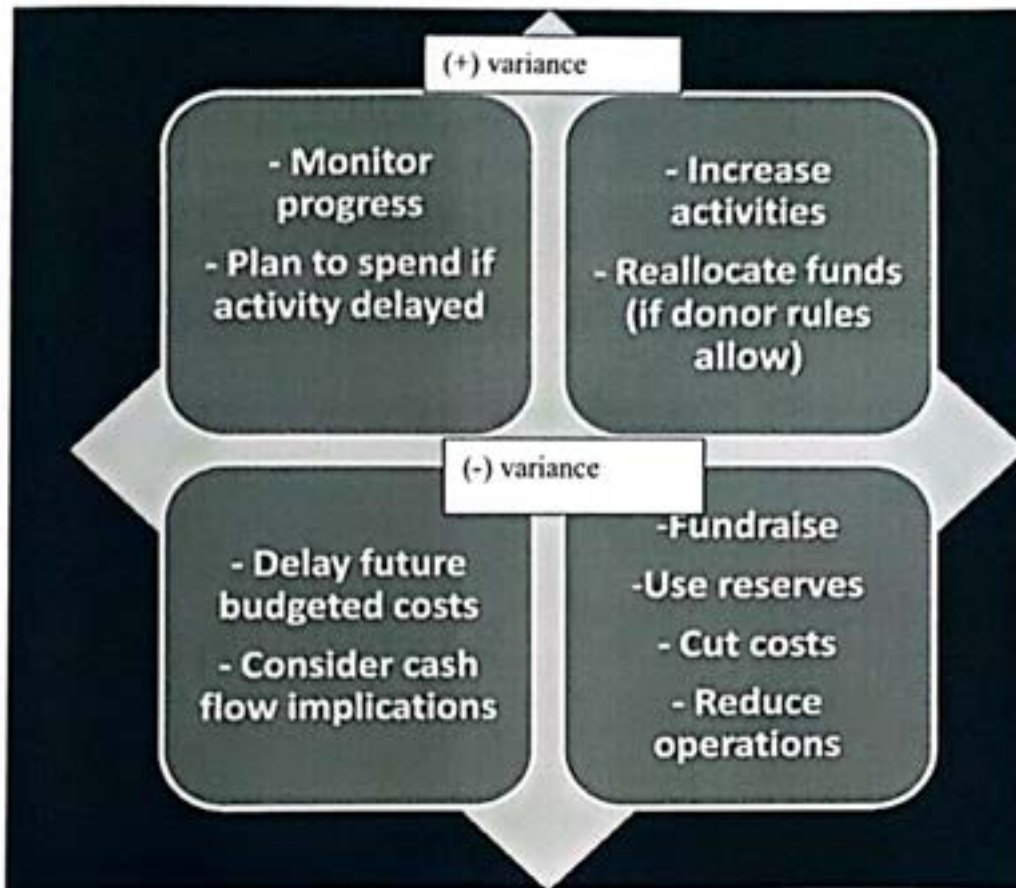
Variance Analysis techniques

- Variance analysis involves looking at variations from budget to identify significant or unusual variances and what has caused them to happen. This helps us plan the next phase.
- Generally, we can say that variances will be the result of a change in one or more of:
 - the timing of the activity (Temporary variance)
 - the actual price achieved or (Permanent variance)
 - the actual quantity of goods or services taken. (Permanent variance)
 - Error in figures

Action to take on variances

- (+) variance
- (-) variance





The Donor Report

- Donors require that an NGO is able to demonstrate financial soundness before granting the release of funds. This is why the donor report is so important. In most cases the report will include a budget compared to actual summary, accompanied by a narrative report on the activities being undertaken.
- When putting together a report to donors do:
 - meet reporting deadlines (or request an extension)
 - produce accurate and verifiable figures
 - not conceal under-spends or over-spends
 - explain any significant variations
 - keep the donor informed of any potential problems

Reporting to Beneficiaries

- Most NGOs recognize the need for downward accountability – ie reporting to the communities they work with. But few have set up systems to deliver it: most NGO systems focus on upward accountability, such as reporting to donors, Boards and Head Offices.



- To participate fully in an JDO's work, beneficiaries need access to information about the JDO's plans, resources and activities. Increasing transparency and accountability to beneficiaries has many benefits including:
 - Strengthening trust and respect between JDO staff and beneficiaries
 - Improving the quality of programme decisions, as beneficiaries provide feedback on how funds are being spent
 - Empowering beneficiaries to make their own decisions on their own behalf
 - Reducing the risks of inefficiencies and fraud
 - Encouraging finance staff to get more involved with NGO field work

1-18. Grant

Grant is money given by donors, usually for a clearly defined purpose.

Grant `schedule

A grant schedule is a special table which provides an overview of which source of donor income is paying for what part of the budget .It is an internal planning tool which is updated regularly as new information becomes available. As well as helping to identify gaps (or even too much) funding, it is useful for renegotiating funding agreements and planning fund raising activities.

Grant Compliance

1. When a new grant is received or renewed, a copy of the executed grant must be forwarded to the Financial Officer.
2. The Fiscal Officer should set up a permanent file for the grant and maintain the contract along with any other financial correspondence regarding the grant.
3. It is the responsibility of the Financial Officer to review the grant contract and extract any fiscal items which must be complied with by JDO.

Policy for Grant Management

1. Building Trust

In all aspects of grant management, problems can be avoided with clear and regular communications with grants officers. Put everything in writing!

2. Observe project start and end dates for spending

Don't make payments or enter into commitments before the agreed contract start date. All invoices must be dated between the official start and end dates. It is OK to spend right up to the of



the end of contract date as long as the invoice is dated before the end of the project as the expenses can be accrued. This is one useful method to avoid large under-spends.

3. Meet project targets within budget

- Make sure the activities covered in the project proposal match the activities carried out and the amount of money spent. It is no good putting ten workshops in the proposal, then only carrying out five and the cost is the same as ten.
- Tell beneficiaries and project officers about who the donor is and what their conditions and restrictions are. Hold regular meetings with other staff (e.g. project and administrative staff) to discuss the donor's conditions, and to review progress compared to the project plans agreed with the donor.

4. Avoid under spending

This is as much, if not more, of a problem for a donor as over-spending is. Donors have targets to meet too and they really don't want the hassle of funds being returned to them. If you do not use up all of their allocation, the donors may then lose this money from their next year's allocation.

5. Monitor donor-by-donor expenditure

In multiple-donor funded projects, keep an eye on the individual expenditure allocated to each donor to make sure you do not under- or over-spend for each donor. The total expenditure might show you are on target overall but conceal the donor by donor position.

6. Spend Capital expenditure budgets early

Equipment should be spent in the first part of the programme. Donors do not generally allow this to take place in the closing months or to be the subject of a no-cost extension.

7. Make time to prepare donor reports

Putting a financial report together always takes longer than you think! This is especially true if you need to ask questions from busy program and project managers. Delayed reporting from the field and poor follow up at head office to chase reporting often leads to under- or over-spending going unnoticed for far too long. It is then too late to rectify.

8. Reports must be complete and accurate

- Make sure all expenditure is reported in the correct period. For instance:
- Do not allow working advances to remain unreconciled for longer than necessary.
- Do not change previously reported budget or actual figures.
- If a previously reported figure is wrong, do not change the figures. It is better to make an adjustment to the current figures – and use notes to explain what you have done.

9. Keep clear contract files and budget notes

Put dates and notes on all papers relating to the grant. It will then always be clear to whoever manages the project implementation (often two years after the initial proposal) which is the latest version of the contract and the final budget, and what changes have been requested and agreed by the donor.

10. Donors don't like surprises

- If you cannot meet reporting deadlines or fulfill other conditions, warn the donor as soon as possible; don't ignore it. You may be able to negotiate on unrealistic terms and conditions.



- For example, reporting deadlines may not be realistic because a lot of spending takes place in remote areas of the field, where there is no internet access so reports have to be physically delivered when field staffs return to base. It is better to explain this to donors in advance and they will often respond favorably.
- Similarly, if certain budget items are going to cost more than budgeted due to unforeseen changes, give the donor advance notice.

The consequence of not fully complying with donor conditions could include:

- Disallowed expense- e.g. items purchased from restricted countries or quotations not obtained
- Delayed grants- e.g. donor progress report not submitted on time or in the correct format
- Funds withdrawn- e.g. unspent grants not disbursed due to missed deadlines
- Equipment reprocessed-e.g. assets not registered or procurement policy not followed

Grant Closure Tasks

Before the end of the project (Approx. 3 Month)

Plan closure timetable and staffing requirements
Plan staff redundancy arrangements
Discuss closure with communities
Negotiate adjustments to project with donor (no-extension)
Plan closure with partners
Inform donor of closure plans
Prepare handover to Ministry
Hold event formally close project
Inform staff of redundancy arrangements
Organize project audit (if needed)

Directly after the end of the project (approx. 3 months)

End of project inventory check
Dispose of assets according to donor conditions
Check all invoice dates are within contract dates
Confirm no commitments are outstanding to forecast financial position)
End of project what is outstanding to for forecast financial position)
Reconcile project cashbook and commitments register with donor reports
Prepare final narrative report
Handover to Ministry
Handover to communities

At and after the submission of the final reports

Submit final report
Hold final meeting with donor
Submit final income claim to donor
Close bank account (if sole use was for project)
Finalize grant file

1-19. Fraud

There is an important difference between frauds and errors. Frauds are illegal acts that benefit an individual or group by an intentional false representation of facts. Errors are a mistaken belief of fact which may also benefit an individual or group, although inadvertently. The important difference is **intent**.

- Discovery of questionable, fraudulent or illegal activities which might be or might appear to an outsider, to be in violation of JDO's standards and policies must be reported immediately to the employee's immediate supervisor, the Executive Director, or the Board Directors through the Chairperson.

Here are some tips on how to deal with fraud and other irregularities – to keep RISKS LOW:

DO Report the incident to a superior or Board member

Investigate incidences, gather the facts

Secure the assets and records

Keep calm!

Swiftly act

DON' Look the other way

Overlook the 'fall out' of a fraud

Withhold information to protect others

Above all, remember that prevention is better than cure.

Reference:

- JDO's previous accounting manual
- FSS Model
- Mango Course Han Book: Taking fear out of finance
- [http://www.ashikabd.org/ashika-bd-resources/Financial Management ManualAshika.pdf](http://www.ashikabd.org/ashika-bd-resources/Financial%20Management%20ManualAshika.pdf)

This financial & accounting procedures manual shall be effective as it was revised and endorsed by the Board of Directors on July, 2021.

