DEFENCE for CHILDREN

Ghana

FINANCIAL ACCOUNTING POLICY & PROCEDURES

DECEMBER 2018

Executive summary

This Financial Accounting Policy and Procedures is developed to serve as a Financial Guide to all the members and management of Defence for Children International, Ghana,

This is to provide guidance to all members and management on how to better manage the financial affairs and practices and ultimately operate in a safe, efficient and professional manner.

The policy will help all members and management operate with greater proficiency and professionalism and in so doing help them to cope up with an increasingly complex and

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Introduction

Purpose and Structure of the Manual

The DCI (GHANA) is a non-governmental organization dedicated to the promotion and protection of the rights of the child. DCI (GHANA) believes that every child has socio-cultural, political and economic rights which must be respected, protected and promoted to ensure proper growth and development of the child.

This manual aims to provide clear and reliable information in a format accessible to staff and members of the organization. It is intended to be a comprehensive guide and while it may not answer every possible question will provide a starting point for further reference.

Policy versus Procedures

Policy is approved by the Director after consultation and recommendations from members and compliance is mandatory. Procedures and background information is provided as a guide and is recommended as best practice.

Maintenance and Update

The Policy will be updated and maintained on a regular basis. Updates will occur as a result of:

- changes in policies;
- changes in functions in a task and/or structure;
- audit recommendation;
- decisions from the Director and/or management.

Any suggestions regarding current or new content would be most welcome and should be directed to the Finance Officer, Defence for Children International

Acronyms

- AP: Accounts Payable (Creditors) Invoice
- AR: Accounts Receivable (Debtors) Invoice
- DTR: Director

- FAPP: Financial Accounting Policy and Procedures
- HOD: Head of Department
- IT: Income Tax
- ITS: Information Technology Services
- PAYE: Pay as you earn taxation
- VAT: Value Added Tax
- GL: General Ledger

Definitions

Account - Basic unit for collating income and expenditure for an organization, e.g. cash book etc.

Capital Evaluation Policy & Procedures - The organization has established a process for evaluating proposed significant Capital Expenditure, or the "CAWSEP" procedure. "CAWSEP" is defined as "Capital Works and Significant Equipment and other Projects. Capital works refers to all capital expenditure on land and buildings.

Debit - An entry to an account with the effect of increasing expenditure, increasing an asset, decreasing a liability or decreasing revenue. Where the operations of an activity result in a debit balance the sum of expenditure exceeds the sum of revenue. In carry forward terms a debit balance is an overdraft.

Credit - An entry to an account which recognizes revenue or a liability, or decreases an expense or an asset. Where the operations of an activity result in a credit balance the sum of revenues exceeds the sum of expenditures. In carry forward terms a credit balance is equivalent to being in funds.

Asset - Resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. A capital item which is expected to last more than one year. For example, items of land and buildings.

Liability - Present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of economic benefits. An obligation to another party which arises from a past event and results in a sacrifice of service potential measurable in kwacha terms.

Expense - Decreases in economic benefits in the form of outflows or depletion of assets, or incurrences of liabilities that result in decreases in equity (other than decreases because of distributions to owners). Payment for goods or services. Amount of money required to obtain an input

Income - Increases in economic benefits in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity (other than increases resulting from contributions by owners). Income embraces revenue and gains. Arises from the sale of goods or services or any income e.g. a grant. Amount of money obtained or obtainable from the supply of a good or a service

Surplus - Results from income exceeding expenses for a period.

Deficit - Results where expenditure exceeds income for a period

Commercial Activities - Any activity conducted from within the organization's resources to external clients which have the creation of a financial surplus or the reduction of costs, for the organization, as its main purpose.

Variance - The difference between an actual value and a budget value.

These acronyms and definitions are used throughout this Financial Accounting Policy and Procedures. .

Financial management Systems Overview

Overview

This section covers macro level policy and commentary on legislation and external reporting requirements of the organization including output reporting.

Requirements of Legislation

For Policy and Procedures:

The Director of the organization manages the operations and administrative affairs and is given the power to delegate, by writing, any functions or powers given under the organization's constitution and any statutory body. Hence the Director is acting for the organization's members, to put in place policies and administrative procedures which will ensure that resources are used efficiently and effectively.

For Funding:

The organization is funded by the donors and well-wishers i.e. corporates, government agencies and other non-government organizations around the world. The grants are given upon the approval of donors' contract of offer for the funding.

For Reporting:

The reporting of financial performance is based on the requirements of the donors and must comply with Generally Accepted Accounting Practice (GAAP) or the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The Annual Report includes:

- financial statements including an Income Statement, Statement of Financial Position, Statement of Cash Flows and Statement of Accounting Policies
- Non-financial statements (called a Statement of Service Performance) reporting on the achievement of the targets outlined in the Statement of Objectives approved by management and presented to the donors.

Resource Allocation & Budgeting

Introduction

The organization's system of budgetary and financial controls allows the devolution of financial responsibility to the individual members in the organization. Each individual member has a key role in ensuring that organization's objectives are met, and outputs are produced.

Resource Allocation Policy

Purpose

The purpose of this policy is to establish a link between the outputs in the organization's strategic plan and the provision of resources; to establish a link between funding-based revenue generated donors and well-wishers and the resources allocated; and to allocate funds in the form of budgets for all operating and capital expenditure as stipulated in the contract of the funds.

Overview of Resource Allocation

The resource allocation system comprises:

- a budget round for every fund available
- a funding model to allocate funds to the necessary requirements
- a capital works budget for specific funding

Budgeting

The budgets should prepare budgets using a zero-based approach. These should take into account the outputs of the organization approved by management and any objectives and performance targets set by the Director.

Budget submissions will be prepared in a standard format and will be debated by members prior to being approved by the Director.

Capital Expenditure

Capital expenditure budgets will be prepared in accordance to the funding or availability of resources for such expenditure.

Budget Approval

The Budget and the Budget Review will be approved by the Director after consultation with management.

The Budget

Budget Overview

The budget is prepared annually and is usually scheduled over two months, typically from November to December each year, and presented to the Director for approval. Prior to this it is considered by the management.

The budget preparation is an important process and everyone has a responsibility to ensure that the budget is fully fledged with necessary information to suffice the objectives of the organization.

Budget Review

The budget review takes place in January each year. The Funding Model is recalculated to correlate it with the available resources. The Budget Review is also used to correct any major errors and allow for any major changes in objectives and outputs. The approval process for the budget review is similar to that for that original budget.

Financial Delegations

Overview

Financial devolution is a key feature of the organization's financial systems with considerable autonomy given to members to spend the budget. Delegations allow the Executive Director to operate the business of the organization by allowing specific members' authority to expend funds.

Financial Delegations Policy

Purpose

The purpose of this policy is to provide appropriate financial authority to management to expend their approved budgets.

Policy

1. Subject to specific organization policy, management is free to spend their approved budget for business related operating expenditure and capital expenditure in the manner that best achieves the objectives of the organization and, in the case of externally funded activities, meets the obligations in the contract between the organization and the external funding provider.

2. Budget allocations may be transferred from operating expenditure to capital expenditure or vice versa with the authority of the Executive Director.

3. All expenditure must be business related and must be properly authorized. The management must approve all invoices that are to be charged against the budget.

4. All expenditure must be adequately supported by invoices and/or receipts.

5. No staff member may approve reimbursement of their own expenditure. This shall be done by a higher authority.

Signing Organization Contracts

Any contract between Defence for Children International, Ghana and any other organization must be signed by the Director. If the other party requires more than three signatories, the management will decide which extra people to sign on such contracts.

Financial Monitoring

Overview

Accountability is a key feature of the financial systems. The budget is the financial plan for the year. It is essential to monitor actual progress against this plan to ensure that the desired fiscal result will be achieved. The organization has a monthly reporting and monitoring program to facilitate this. The monthly reports are the main tool of financial control enabling management to monitor income and expenditure against budget.

Financial Monitoring & Control Policy

Purpose

The purpose of this policy is to provide a framework for monitoring, reporting and controlling financial performance and incentives for good financial management and penalties for inadequate financial management.

Reporting

All financial performance will be measured against the budget.

Management will monitor the financial results of the organization monthly and will take corrective action where necessary.

The Finance Officer will provide a monthly report to the Director and management.

Reporting Systems

The monthly reports are the main basis of financial control, enabling management to monitor income and expenditure and budgets.

Reports Available

The cash book summery is produced to check the incomes and expenditures for the month. This is after reconciliation with the bank statement.

Report Format

Reports have the same format as:

- income
- less Expenses
- equals Surplus (Deficit)

What to look for in the reports?

All financial performance is measured against the budget (Organization Policy). However, the budget is a forecast of the future and it is inevitable that there will be variances on a line by line basis.

The key result is the bottom line of the expenditure budget and it should not be exceeded unless approval is given by the Director.

A common reason for variances is timing differences between actual events and the budget. It is accepted that timing can be difficult to predict. However, it is recommended that management endeavor to apply some methodology to monthly budget splits rather than adopting the all too common practice of simply dividing the budget total by twelve.

Errors?

Where unexpected transactions appear in the reports they should be followed up to ensure they are correct and properly authorized.

Where errors are found, correcting journals should be prepared by the Financial Officer with sufficient supporting documentation to enable the correction to be confirmed and processed.

Annual Reports

Public Annual Report

The reporting of financial performance is based on Generally Accepted Accounting Practice (GAAP) or the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The Annual Report includes:

- financial statements including an Income Statement, Statement of Financial Position, Statement of Cash Flows and Statement of Accounting Policies
- Non-financial statements (called a Statement of Service Performance) reporting on the achievement of the targets outlined in the Statement of Objectives approved by management and presented to the donors.

The annual report is subject to audit and audited accounts must be available no later than 4 months after the end of the financial year (31 December).

Accountability, Internal Control and Audit

Overview

This chapter covers the forms of accountability, some comments on basic internal controls, and introduces the internal audit function.

Accountability requirements exist at several levels within the organization (internal accountability) and between the organization and external parties (external accountability). External parties include the Government agencies, donors, regulatory bodies and the public.

Accountability

External Accountability

The current empowering legislation for the organization is the Registrar General's Department and the Department of Social Welfare.

The two key reports are:

- Statement of Objectives
- Annual Financial Statement

The Statement of Objectives, which forms a part of the annual Organization Profile, specifies the outputs produced by the organization and the financial performance achieved during the year.

The provisions relating to the annual report include:

Preparation of annual financial statements in accordance with *generally accepted accounting standards*.

The financial statements are to include:

- Statement of financial position
- Income Statement
- Statement of cash flows
- Statement of accounting policies, commitments and contingent liabilities

A management statement including a statement of management's responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting

An audit reports

The financial statements must be audited within 4 months of the end of the fiscal year.

The Statutes, the Profile (including the Statement of Objectives), and the Annual Report form the basis for the organization's accountability to external parties. All three documents must be available to the auditors

Internal Accountability

The organization is governed by management, the constitution of which is set by the members. members of the management are appointed by various interested parties. The functions of managements are:

"To determine the policies of the organization in relation to the implementation of its charter, the carrying out of the statements of objectives and, the management of its affairs".

"to ensure that systems are established for the co-ordination of, and accountability for, activities within the organization to ensure the responsible use of public resources".

An internal system of financial accountability is hierarchical and follows the organizational structure. The budget provides targets for financial performance for which managers at all levels of the organization are accountable. The monthly financial reporting system allows comparison of actual results achieved with the budget. Any variances from planned performance are analyzed in a financial report from the Financial Controller to the Director and management.

Internal Control

Definition

Internal Control is defined as:

"all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its

business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information."

Basic Principles of Internal Control

Internal controls are put in place to manage risk and hence to help ensure that the organization resources are used efficiently and effectively. Risks should be continually assessed and controls put in place which ensures that the risks are minimized. Internal controls will not eliminate all risks - to do so would create inefficiency - but the controls should reduce the risk to an acceptable level.

The system of internal control must include:

Training and Supervision of Personnel and Definition of Responsibilities:

It is essential that personnel are given clearly defined lines of responsibility and authority. It is also essential that personnel are trained and supervised in the tasks that they are asked to perform.

Adequate Segregation of Duties:

The ability to adequately segregate duties depends upon the staffing levels and circumstances of each cost centre. However, as a guide to best practice the following may apply:

- Separation of financial functions
- Separation of the authorization of transactions from custody of the related assets
- Separation of operating duties from financial record-keeping
- Separation of custody of the assets from maintenance of the related accounting records

Existence of Adequate Documentation and Records:

Compliance with the policies and procedures for the procurement of Value Added and the payment of accounts will help ensure that documentation is maintained to a suitable standard.

Internal Audit Recommendations

The organization's Internal Audit considers that the major financial controls that managers should be concerned with are in the areas of receipting, order/invoice authorization and the control of fixed assets and inventories.

The recommendations of best practice, which were approved by the Director, are:

Receipting:

- All funds should be receipted, and the receipt numbers recorded on the banking summary sent to the bank
- Cash boxes should be securely locked with access limited to two or three staff
- Banking should be performed as soon as cash is received.

Order/Invoice Authorization

- Orders should be completed for ALL purchases, both internally and externally
- All orders should be signed as authorized
- Orders should be filed sequentially with internal and external separated
- Invoices should be authorized for payment only after being referenced to the original order and ensuring that the goods/services have been received.
- management should review the order authorization and invoice authorization to ensure that they are segregated and not done by the same staff member.

Control of Fixed Assets and inventories

- Fixed assets are those items with a useful life in excess of one year, including computers. management should ensure these are listed in the organization's asset register with an adequate description and the serial number.
- All attractive assets should be engraved with the organization's name.
- management should regularly check the asset register listing (available from the Financial Controller) against the physical assets in the organization.

Embezzlement, Fraud and Theft

Organization policies, procedures and systems ensure that the organization is publicly accountable for its assets. Organization assets are its buildings and property; equipment including motor vehicles and computing hardware and software; services and utilities, computing and telephone networks; consumables; and all income received by the organization, whether in cash or in kind.

It is the responsibility of all organization staff to ensure that organization assets are used only for approved organization purposes and that private or improper use of any organization asset does not occur. Embezzlement, theft or fraudulent or improper use of any asset constitutes serious misconduct and may result in dismissal and criminal proceedings.

Internal Audit

Role

The organization's management is responsible for ensuring that satisfactory systems of internal control are in place to ensure that the financial information produced is reliable, that organization assets are safeguarded and that the organization resources are used efficiently and effectively in achieving the desired outcomes of the organization.

One of the mechanisms for ensuring that these objectives are achieved is the establishment of an independent internal audit function. The Internal Auditor reviews accounting records, management information systems and other administrative policies and practices throughout the organization. The role includes the identification and recommendation of measures to achieve greater effectiveness, efficiency and economy and to remedy practices that expose the organization to undue risk and vulnerability.

The Auditor identifies practices that do not comply with organization policy, or with the requirements of external regulatory bodies. The Internal Audit Unit contributes to measures to prevent fraud and corruption.

Independence

To ensure that the functions can be carried out effectively it is necessary to ensure that the independence of the Internal Auditor is maintained. For this reason, the Internal Auditor reports directly to the Director. The

Access Issues

In order to carry out its duties effectively the Internal Audit Unit must have unrestricted access to organization records. In obtaining such access the unit will endeavor to provide sufficient notice of its requirements. Assistance may be requested from responsible parties, who should respond promptly to such enquiries.

Financial Accounting Systems Overview

Introduction

The financial software used by the organization is the open source Microsoft excel and Quickbooks accounting Software

This is where most of the financial transactions are dealt with. It houses the following accounts;

- Cashbook
- General Ledger
- Purchasing and Assets

Cashbook

The cashbook is the worksheet where all cash transactions, i.e. receipts and expenses are posted for procession to the general ledger.

The general ledger

The general ledger summarizes all the accounts in the books of accounts.

Fixed Assets

A detailed list and history of all organization fixed assets is available on the work sheet.

Revenue & Receipting

Introduction

A significant amount of income is derived from donors and well-wishers in the form of cash and cheque as well as direct debits. All this income is deposited into the organization's bank account. Issues relating to banking are covered in this chapter including the procedures to be followed in preparing for banking, the issue of receipts, special receipts etc.

Cash Banking

Introduction

Cash and cheque received by the organization as part of the day to day management of the organization. The receipts may result from fundraising or funding from donors and well-wishers. This section describes the procedures for collecting (receipting) and banking (organization's banking) cash and cheque.

Security of Cash on organizational Premises

- No individual can hold the organization's cash and cheques. One member of staff should be responsible and ensure that all monies are kept in a safe or lockable cash box secured in a locked cupboard or drawer with secure overnight storage. Cash should be counted out of public view.
- Where a member holds petty cash for cash requirements please contact the Financel Officer for any development concerning such cash.
- Where significant amounts of cash are likely to be collected appropriate security should be arranged to ensure the safety of staff.

Payments / Accounts Payable

Procedures

Cheque payments

- Cheques should be raised only on the basis of authorization, for example a purchase invoice which has been suitably authorized.
- Cheques should be signed by people other than those who approve invoices.
- There should be two independent signatories for each cheque, for instance, two Management Persons might act as signatories. Signatories should inspect the documents supporting the cheque to ensure that the details agree. They should also mark the document so that it cannot be reused.
- Cheques should be restrictively crossed.
- Unused cheques should be kept in a secure place. Blank cheques should never be signed.
- Cheques should be under sequential control and all numbers should be accounted for.
- Spoilt cheques should therefore be retained.
- When cheques have been signed, they should be dispatched immediately.

General Information

- All expenditure must be supported by original receipts, which must be attached to the payment requisition form or vouchers.
- The payment requisition form supporting documentation should be forwarded to the Finance Officer for checking and posting to the books

Reasoning Behind Payment Procedures

Accountability

- **General**

One of the main drivers behind the current procedures is accountability. Accountability requirements exist at several levels within the organization (internal accountability) and between the organization and external parties (external accountability). External parties include the Government Agencies, other NGO and the public.

- **Internal Controls**

In order to achieve this accountability, an organization must have in place internal controls. Internal controls manage risk and hence help ensure that the organization resources are used efficiently and effectively. A major component of internal controls is the existence of adequate documentation and records. Such documentation and records would be invoices and receipts. The organization's external auditors specifically examine all aspects of internal control to ensure that such controls are in place and are adequate.

Petty Cash

The following procedures should be followed when making a petty cash payment:

- Petty cash payments should be made only on the basis of suitably authorized vouchers, which should be under sequential control. Vouchers should be retained for subsequent references. Where independent evidence is also available, for example invoices and receipts, this should be retained. Attach all receipts to the petty cash form in the same order as they are listed on the form

- An imprest system should be used to control petty cash. This means that the petty cash float is maintained at a specific amount and is reimbursed at regular intervals on the basis of vouchers showing the payments which have been made. It is suggested that the float should be kept at a level of GHS5,000.00 and be reimbursed on a weekly basis. Reconcile the petty cash by adding the cash on hand to the total expenditure on the request form. The total of these two amounts should equate to the total petty cash advance

- The petty cash float should be subject to periodic surprise counts by a responsible person not involved with the petty cash system. The balance in-hand should be reconciled to the imprest account by reference to the vouchers not yet reimbursed.

- The size of individual payments out of petty cash should be subject to a maximum to be agreed by the Management.

- Staff should not be allowed to cash personal cheques or borrow from petty cash.

Reimbursement - Travel Costs

Reimbursement of work related travel costs should be calculated using the most cost-effective means for the organization. This should be calculated by using either the cheapest equivalent, hiring a rental car, using the standard public transport service or reimbursing the staff member for mileage.

Bank Accounts

Background

All money received by [the Organization] shall, as soon as practicable after it has been received, be paid into the bank account of the [Organization].

To achieve this, the organization operates bank accounts here in Zenith Bank Ghana limited

Reconciliation of Bank Accounts

The Finance Officer is responsible for ensuring all accounts are regularly reconciled on a timely basis e.g. bank account - monthly

Physical Assets

Definition of Asset

An asset is defined as any item which is expected to have a useful life of more than one year. All purchases of computers, including personal computers, Macintosh's and laptops, are to be capitalized regardless of the purchase price..

The cost of repairing or replacing computer components and ancillary equipment such as keyboards and monitors is to be expensed unless amount is substantial.

Classes of Assets

The organization classifies assets into the following categories:

- Motor Vehicle/Bike
- Furniture and Fittings
- Office Equipment

More detailed classification is available when recording assets on the fixed asset register.

Depreciation

We capitalize the asset by including it in the organization Balance Sheet and then we reduce the value of the asset by charging depreciation to the Income & Expenditure Statement. The asset is depreciated to its estimated residual value. organization assets are depreciated down to residual values as follows:

Motor Vehicle	-	20% pa
Furniture & Fittings	-	10% pa
Office Equipment	-	10% pa

Depreciation is calculated monthly and charged to each respective asset. The breakdown of this monthly charge is available in asset register.

Control of Assets

Responsibility

An important organization internal control objective is the safeguarding of assets. organization assets are widely distributed and the responsibility for their safeguarding rests with every member of the organization. All assets should be security marked and secure where ever possible. Assets should only be removed from the premises with the permission of the Director and a system for recording the location of such assets should be in place.

Asset Audits

The asset register is one of the key tools in ensuring assets can be accounted for. An audit of the main asset register will be carried out on a regular basis to ensure that the accuracy and completeness of the register is maintained. The audit will take the form of a cyclical check to ensure that all assets per the register are still in the department, that all new assets have been correctly added to the register, and that other information included in the register is accurate.

Approved by the Executive Council of Defence for Children International, Ghana on 23rd December 2018