ACT – CIVIL SOCIETY ORGANISATION (CSO)

ORGANISATIONAL DEVELOPMENT (OD) GUIDE

FINANCIAL MANAGEMENT TOOLS - IN A CSO

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PURPOSE

This OD Guide has been developed to support CBOs, CSOs and CS Networks in Nigeria. It is not a training handbook, and does not go into the depths of accounting required for an audit. It is designed as a reference document to provide support to CSOs with tools to support their financial procedures. As part of a CSO's Internal Systems development, the aim of this Guide is to provide a systematic approach to using organisational Financial Management tools and to support CSOs to comply with due diligence processes, as well as to be fully accountable to its stakeholders.

Financial management is one of the most important and challenging features of internal systems within a CSO. We hope that this OD Guide enhances the knowledge and understanding of some of the key tools required by the financial management team to ensure that the CSO adopts transparent, accountable and secure financial management processes.

In line with a commitment to Human Rights and Gender and Social Inclusion (G&SI), it is anticipated that CSOs' projects and plans demonstrate the mainstreaming of G&SI and the adoption of a Rights-based Approach. It is, therefore, important that G&SI becomes an integral consideration, not only at Programme level but also at Financial Management level, or the work of the CSO is unlikely to be sustainable in the long-term.

COMPONENTS OF FINANCIAL MANAGEMENT

Efficient financial management systems are crucial for the success of any organisation – private, government or non-government. Basic skills in financial management start in the critical areas of cash management and book-keeping, which should be carried out following specific financial controls to ensure integrity in the book-keeping process.

The following are the areas of interest in the financial management procedures in CSOs that will be addressed in this Guide:

1 Types of advance payments
2 Standard templates
3 Handling Cash transactions
4 Bank Procedures
5 Stock-taking and asset management
6 Fraud and corrupt practice
7 Record keeping

1   What is an 'Advance' Payment?

Advances represent amounts paid before the fulfilment of an obligation or before goods or services are received. These types of payments are in contrast to **deferred payments or payment in arrears. In these cases, goods or services are delivered** first, then paid for later. Advance payments are generally made in two situations. They are either applied to a sum of money provided before a contractually agreed due date, or they may be required before the receipt of the requested goods or services. The terms and conditions stated must be strictly followed.

A cash advance is settled either by returning the money advanced, if unspent, or by the presentation of vouchers which provide detail of the items that have been paid for. These must be in accordance with the purpose for which the cash advance was made and supported by proper receipts and/or other evidence of payment.

1.1 Create an Advance Account upon recruitment and resumption of relevant staff
   ▪ This will enable the posting of all Advances and Retirements made to the staff

- Advance requests, both staff and project, must be passed through the system (on Accounting Software)
- Staff must 'retire' an existing Advance before making another request for a new Advance
- All requests must be approved by Senior Management (designated)
- Request for Advances are made on an individual basis. (A group request should only be made as an exceptional case (eg: group meetings, seminars, etc) and must be duly approved with sufficient justification
- Retire the Advances within (the latest) 5 working days after the return from the trip/end of activity
- Retire with sufficient/verifiable supporting documents
- Advance request should entail the provision of a Concept Note and Budget (approved)
- It should have the activity period clearly stated
- If it is for a meeting/event, attendance sheet of those who participated should be submitted
- Completed payment schedule
- Beneficiaries payment should be made directly into their bank account (no cash payments)
- For residential – hotel bills, invoices and receipts should be signed by participants
- Spending - the actual amount that has been budgeted (or return unspent funds)
- Timely submission of Liquidation report – at least twice a month
- Financial report must show actual expenditures incurred and submitted monthly
- Late or non-retirement of Advance may lead to reduction or postponement of future requests
- All interest earned on Advances must be reported
- Failure to liquidate advances as required may lead to the termination of contract and/or litigation
- Documents must be properly filed
- Advance related documents should be stored both in hard and soft copies
- Financial documents are the property of the CSO and must be made available during liquidation, and audit

1.2 Generic payments - minimum support documents required
- Telephone expenses - Requisition, Approval, Receipt
- Internet Cost - Requisition, Approval, Receipt
- Fuelling of Generator - Requisition, Approval, Invoice and Receipt
- Programme Meetings - Signed Attendance Sheet, Agenda, Minutes of Meeting, Receipt for meals provided
- Stationery - Requisition, Approval, Invoice, Receipt, Goods Received Notes
- Volunteers Stipends - Requisition, Approval, Appointment Letter, Activity Report, Schedule of Payment
- Consumables - Requisition, Approval, Invoice, Receipt, Goods Received Notes, Local Purchase Order, Delivery Note
- In a nutshell, all Advances must be applied in line with approved budget. Budgets are estimates, hence it's expected that actual implementation must be reflected as appropriate in the CSO's activities, supporting documents and financial reporting. The CSO must demonstrate that costs were incurred objectively, effectively and efficiently. 'Value-for-money' must be demonstrated.

Specific examples of documents required for staff advances (Travel)

1.2.1   Documentation checklist to raise an Advance for staff
- Approved Activity Profile/e-mail from Supervisor
- Approved Advance Request Form
- Copy of Bank Information

- Copy of Travel Policy
- Copy of e-payment receipt/cheque acknowledgement

1.2.2 Documentation checklist to raise Advance to pay participants
- Approved activity profile
- Excel worksheet indicating amount to be paid as per diem and transport
- Travel advance request form
- Pre-attendance list
- A schedule of distances for each participants to verify transport allowances
- Copy of e-payment receipt/cheque acknowledgement
- Terror checks on participants

1.2.3 Documentation checklist for travel expense retirement
- Completed and duly approved Travel Expense Fund
- Other approved Expense Receipt(s)
- Hotel bill/invoice and Hotel receipt (for hotel accommodation)
- Air Ticket/Boarding Pass (if appropriate)
- Photocopy of Advance Voucher
- Activity Profile or e-mail from Staff Supervisor or ED
- Vehicle Log - if no Hotel bill or Receipt/Air Ticket and Boarding Pass is available
- Approval for Excess Luggage
- Letter of Invitation/E-mails where applicable
- For Drivers retirement - Vehicle Request Form/Vehicle Log
- Bank Deposit details (if refund is to be made to Bank Account)
- Trip Report - signed by the Supervisor
- Copy of Bank information
- Copy of e-payment receipt/cheque acknowledgement
- Copy of Travel Policy

Other Transaction Checklist and documents require in various activities of CSOs/CBOs

1.2.4 Documentation Checklist for Volunteers (for relevant payments)
- Agreed scope of work
- Signed contract
- CV (Curriculum Vitae)
- Liability waiver form
- Terrorism check
- Data documentation sheet
- Purchase order
- Report
- Invoice
- Copy of e-payment receipt/cheque acknowledgement
- Copy of bank information
- Stamp paid

1.2.5 Documentation checklist for intern/temporary staff
- Signed contract
- Agreed scope of work
- CV and completed bio-data
- Terrorist check
- Invoice
- Purchase order
- Approved time-sheet
- Copy of bank information

- Report
- Copy of e-payment receipt/cheque acknowledgement

1.2.6. Documentation checklist for consultants
- Signed contract
- Agreed scope of work
- CV and completed biodata
- Selection note and terrorist check
- Approved budget
- Payment request
- Report
- Purchase order
- Certificate of work completion
- Copy of bank information
- Copy of e-payment receipt/cheque acknowledgement

1.2.7 Documentation checklist for facilitators
- Signed contract
- Agreed scope of work
- CV and selection note
- Terrorist check
- Approved budget
- Payment request
- Purchase order
- Agenda and attendance list
- Report (lead facilitator)
- Certificate of work completion
- Copy of bank information
- Copy of e-payment receipt/cheque acknowledgement
- Stamp paid

1.2.8 Documentation checklist for hotel accommodation/catering services - participants
- Letter from Operations to the Hotel, with details
- Activity profile
- Pre-participants list
- Terrorism check on the Hotel
- Confirm that the Hotel rates are as per pre-qualified rates
- Purchase order
- Service completion certificate
- Invoice from the Hotel
- Hotel bills duly signed by participants
- Copy of per diem/transport payment sheet
- Participants' attendance sheet
- Copy of bank information
- Copy of e-payment receipt/cheque acknowledgement

1.2.9 Documentation checklist for part payment to hotel
- Letter from Operations to the Hotel
- Activity profile
- Pre-participants list
- Confirm that the hotel rates are as per prequalified rates
- Purchase order
- Invoice
- Copy of e-payment receipt/cheque acknowledgement

- Copy of bank information
- Terror check on the hotel
- Stamp paid

1.2.10   Documentation checklist for Hotel accommodation - staff
- Service completion certificate (if office is paying directly to the Hotel)
- Invoice
- Hotel bills duly signed by the staff
- Purchase order/letter and activity profile
- Confirmation that the Hotel rates are as per prequalified rates
- Approved activity plan or e-mail instruction from supervisor/ED to that effect
- Terrorism check on the hotel (if office is paying directly)
- Copy of bank information
- Copy of e-payment receipt/cheque acknowledgement
- Stamp paid

1.2.11   Documentation checklist for car hire services
- Approved vehicle hire request
- Copy of valid driver's licence of the driver
- Vehicle registration papers and comprehensive insurance (must be in company's name)
- Valid company's registration papers
- Vehicle leasing/hire agreement
- Terror check
- Quotation evaluation analysis report
- Three (3) quotations or pre-qualification
- Vehicle inspection form
- Service completion certificate
- Vehicle movement log
- Purchase order
- Final invoice (certified by the transport unit)
- Copy of bank information
- Copy of e-payment receipt/cheque acknowledgement

1.2.12   Documentation checklist for contract driver
- Signed drivers' engagement form
- Approved contract letter
- Scope of work
- CV and completed bio-data
- Valid driver's licence
- Purchase order
- Terror check
- Service completion certificate
- Duly signed vehicle movement log
- Invoice
- Copy of e-payment receipt/cheque acknowledgement
- Copy of bank information

1.2.13   Documentation checklist for purchases of goods and commercial services – vendors
- Copy of complete purchase request(s) (PRs)
- Copy of the request for quotes (RFQ)/request for Proposals
- Copy of vendor quote(s) received
- Copy of documentation of vendor selection
- Copy of print-out of clearance verification results

- Copy of donor approval (if approval required)
- Copy of purchase order + any modifications
- Written confirmation of receipt for good or written confirmation of completion of services from technical supervisor
- Related emails or activity profile
- Inventory stock status
- Pre-qualification of vendors
- Signed procurement committee minutes/report
- Attendance sheet
- Delivery acknowledgement/service completion from inventory
- Purchase order
- Copy of previous payment, if any
- Final supplier invoice
- E-payment receipt

2   CSOs: Standardised Financial Reporting Templates/Forms

- Payment Voucher
- Journal Voucher
- The Cash/Bank book
- Bank reconciliation statement
- Store Register
- Asset Register

2.1 Payment Voucher

- The Payment Voucher is a document that provides evidence/proof that a monetary transaction has occurred between two parties.
- Payment vouchers can be used for a variety of purposes - sometimes taking the place of cash in a transaction acting as a receipt, or indicating that an invoice has been approved for payment.
- A voucher is a written instrument that serves to confirm or witness (vouch) for some facts such as a transaction.
- A payment voucher authorises payment, it is a document raised as a proof that a monetary transaction has occurred between two parties.
- In organisations (CSOs), a Payment voucher can be used for variety of purposes, it sometimes takes the place of cash in a transaction, acting as receipt or indicating that an invoice has been approved for payment.

Typical template/example of payment voucher

		CSO/CBO NAME: …………………………… PAYMENT VOUCHER (PV)		
			PV NO:	
			DATE:	
	VENDOR NAME:		**CHEQUE/REF:**	
SN(A/C) CODE	**G/L**	**DESCRIPTION OF PAYMENT**	**AMOUNT (N)**	
			-	
		TOTAL		
Prepared by:			**Signature/Date**	
Reviewed by:			**Signature/Date**	
Approved by:			**Signature/Date**	

2.2 Journal Voucher

Journal refers to books of original entry, eg: Sales Purchases, Cash Disbursement. A journal voucher records the effects of all transactions and indicates the ledger accounts in which transactions have been recorded. (Shows which account is debited and credited.)

Uses of Journal
- Correction of errors
- Transfer entries from one account to another
- Opening and Closing entries
- Adjusting entries
- Rectification of entries

CSO/CBO NAME: JOURNAL VOUCHER				
		DATE:		
		VOUCHER NO:		
		CHEQUE/REF. NO:		
	VENDOR NAME:			
(S/N) A/C DESCRIPTION	GENERAL LEDGER	DESCRIPTION OF PAYMENT	DR	CR
		TOTAL	-	-
Prepared by:			Signature/Date	
Reviewed by:			Signature/Date	
Approved by:			Signature/Date	

2.3 The Cash/Bank book

- A cash book is a financial record that contains all cash receipts and disbursements, including bank deposits and withdrawals. Entries in the cash book are then posted into the general ledger
- The Cash/Bank Book is used to record transactions pertaining to Cash/Bank receipts and payments
- All receipts are recorded on the debit side (Receipts) and all payments on the credit side (Payments)
- The Cash/Bank book will always have a debit balance, since payment cannot exceed receipts at any point in time.
- In a Grant case all transactions are effected through the bank, ie: all receipts from the donor are transferred to the bank, and also all payments are made through the bank
- Bank fees should also be captured in the credit side of the cash/bank book

Sample Cash Book

DATE	REFERENCE/ CHEQUE NUMBER	PAYMENT VOUCHER NO	JOURNAL VOUCHER NO	DETAIL DESCRIPTION OF TRANSACTION	DEBIT (INFLOW) (N)	CREDIT (OUTFLOW)/ PAYMENT (N)	BALANCE
				Opening balance			
	Prepared by:					Signature/Date	
	Reviewed by:					Signature/Date	
	Approved by:					Signature/Date	

2.4 Bank Reconciliation Statement

Bank reconciliation is a monthly statement prepared to agree the balances of cash book maintained by a CSO, and the bank statement maintained by the Bank.

In addition, when a CSO is in receipt of a Grant from a Donor, the accountant reconciles the grant bank account balance with that of the accounting records on a monthly basis.

Bank reconciliations are prepared using the Bank Reconciliation Form, whether the account has been active for the period or not (a report has to be prepared regularly).

A bank reconciliation statement is a summary of banking and business activity that reconciles the CSO's bank account with its financial records. The statement outlines the deposits, withdrawals and other activities affecting a bank account for a specific period.

Importance of a Bank Reconciliation Statement
- It ensures all transactions have been recorded correctly
- It helps to identify errors to be reported to the bank for correction
- It helps to verify if the entries in the bank statement matches that of the cash book
- It prevents overdrawing of an account
- It prevents financial loss, either through error or fraud
- It helps to ascertain the actual cash balance

2.5 Causes of difference between Cash book and Bank Reconciliation Statement
- Timing difference
- Recording errors
- Bank charges
- Deposits in transit
- Bank service charges
- Check printing charges
- Errors in the books
- Errors by the bank
- Electronic charges on the bank statement not yet recorded in the books
- Electronic deposits on the bank statement that are not yet recorded in the books

Outstanding cheques
- A Cheque issued, but not presented in the bank in time for payment
- A depositor credits her/his books of account right after the issue of cheque to a party - but that party might not present the cheque to the bank on that day for encashment

- Therein lies the possibility of disagreement between balances between the depositor's cheque- book stub and the bank statement, due to a time gap with the issue and presentation of the cheque
- Deposit in transit

Cash deposit
Deposit of cash into the bank on the date of submitting the bank statement to the depositor is recorded in the depositor's ledger account on that day, but it is credited in the bank statement on the following date. This results in a disagreement between two balances.

2.6 Documents Required for Bank Reconciliation Statement
- Bank statement for current month
- Cash book for the current month
- Trial balance as at last date of the month
- Previous month's bank reconciliation statement

2.7 How to prepare a Bank Reconciliation Statement
- Tick entries on the 'debit side' of the cash book against entries on the 'credit side' of the bank statement
- Tick entries on the 'credit side' of the cash book against entries on the 'debit side' of the bank statement
- Identify and prepare a list of deposits in transit (un-ticked items on the 'debit side' of the cashbook)
- Identify and prepare a list of outstanding/unpresented cheques (un-ticked item on the 'credit side' of the cash book)
- Prepare a list of deposits in bank not in cash book (un-ticked entries on the 'credit side' of the bank statement)
- Prepare a list of debits or withdrawals in bank statement not in cash book (un-ticked entries on the 'debit side' of the bank statement) ie: bank fees

Format of a Bank Reconciliation Statement

Name of CSO ……………..			
Bank Reconciliation Statement for the month of XX 20XX			
Balance as per bank statement		XX	
Add: Uncredited Cheques			
Deposit in transit			xx
Debit in bank statement not in Cash book		xx	
Less: Unpresented Cheques			
Outstanding Cheques			XX
Deposit in bank not in cash book		xx	
			(XX)
Balance as per Cash book			XX

2.8 What to do if the Bank Reconciliation still does not balance
- Review to ensure that correct ending balances from bank statement and cash book are used
- Carry out a second review of every transaction in the bank statement and cash book
- Review to ensure no reconciling item is omitted
- Ensure all reconciling items in previous reconciliation that are yet to be reconciled are reflected on the current month's reconciliation
- Review to ensure there is no transposition error
- Check to ensure no transaction is duplicated

CSO's Name ……………………………………….

BANK RECONCILIATION STATEMENT

Balance as per cash Book		-	
Add:			
Unpresented Cheque(s)			
(Cheques issued yet to be withdrawn)			
		-	
Less:			
Uncredited Cheques			
(Deposit in Transit)			
(Unconfirmed Lodgement)		-	
Balance as per Bank Statement		-	

Difference   -

Prepared by:
Reviewed by:
Approved by……………………………………………………

3   Cash Handling Transactions

3.1 Petty Cash Book

Petty Cash refers to a small amounts of funds that a CSO uses to pay without writing a cheque, in order to meet urgent and immediate purchase. The amount of Petty Cash (also known as the Petty Cash fund) varies between CSOs. The book kept to record transaction on the petty system is known as the **Petty cash book.**

An officer of the CSO (Accountant or Finance Assistant) is designated as the Petty Cash custodian. This person is responsible for disbursing the small amounts and for documenting each payment with a petty cash receipt.

Name of CSO											
Petty Cash Register Form											
Petty Cash Account #:					**Name of Account Officer**						
Project Office:					**Name of Reviewing Officer**						
Month					**Name of Finance Manager**						
Date											

Date	Ref #	A/c Desc.	Account	Class	Beneficiary	Description	Cr	Dr	Balance	
						Opening Balance				
						Total DR/CR	0.00	0.00		

Prepared By _____	Summary Reconciliation		
	Petty Cash	Currency	Total
	Opening Balance		0.00
Reviewed By _____	Total Credits (Receipts)		0.00
	Total Debits (Expenses)		0.00
Approved By _____	Closing Balance		0.00
	Total Approved Threshold (Maximum Amount to Hold in Safe)		

Note:

Before incurring an expenses in Petty Cash an IOU form must be completed and approved by designated authority.

IOU simply stands for '*I Owe You'* meaning an individual is owing a given amount to the CSO, and this should be separated from an Advance, previously discussed above.

3.2 Steps for Operating Petty Cash

- There should be a dedicated person (also called the Petty Cash custodian) whom may be a Finance person, as explained in the above paragraph
- There should be a main safe procured for each office to keep Petty Cash safely
- There must be approval for each transaction
- The Imprest method will be used for handling petty cash funds. Under an Imprest system, the petty cash fund is always replenished to the same level rather than allowing the fund balance to rise and fall to varying levels.

Petty Cash System and other Cash Control

- Segregation of duties between person receiving, depositing, and person making payment
- Any unspent (remaining cash) must be returned to the safe
- Access to the safe should not be possible by only a single officer - Staff must not share passwords or the keys to the safe

- Always give receipts for money received
- Regular independent documented cash counts must be conducted
- Always obtain receipts for money paid out
- 'Spot'/unscheduled cash counts must be conducted by management
- Insurance
- Regularly review cash and cheque register
- Keep cash transactions to an absolute minimum
- Daily cash receipt is immediately recorded

3.3 Other working tools including standardise reporting forms

								Petty Cash Balance
CSO NAME:								
Petty Cash Book								-
Date	Amount Received	Date	Detail Description	Amount Paid	Stationery &Printing	Cartage	Loading	Postage
1/1/2020	-			-	-			
				-		-		
				-				
				-				
				-				
				-				
Total	-		Total	-	-	-	-	-

BIN CARD
(Stock Control)

Name of CSO/CBO _____

Department _____

Item Name _____

S/N	Date	Receipt	Issues	Balance	Persons Responsible	Signature
1						
2						
3						
4						
5						
6						
7						

CSO/CBO NAME: MILGOMA DEVELOPMENT ASSOCIATION (MDA) JOURNAL VOUCHER				
			DATE:	
			VOUCHER NO:	
			CHEQUE/REF. NO:	

VENDOR NAME:				
(S/N) A/C DESCRIPTION	GENERAL LEDGER	DESCRIPTION OF PAYMENT	DR	CR
		TOTAL	-	-
Prepared by:			Signature/Date	
Reviewed by:			Signature/Date	
Approved by:			Signature/Date	

INTERNAL REQUEST FORM

CSO Name: _____

Department: _____

Date:

Serial number	Description of items needed	Qty.

Request Office: Issued by:

Approved by:

4 Banking Procedures

Bank transactions include cheques issued, electronic banking transactions, debit orders, interest received and bank charges. Banks issue bank statements on a monthly basis or as agreed upon between the CSO and the bank. All transactions are recorded on a schedule indicating:

- Opening balance at the beginning of the month
- All cheques issued during the month, listed in numerical order

- All e-banking transactions, listed in chronological order
- Debit orders paid by the bank
- Bank charges
- Balance at the end of the month

The balance reflected in the Cashbook is reconciled monthly with the balance showing in the bank statement. Differences between the two balances are reconciled by listing the outstanding items between the two balances. In the Cashbook, all payments are subdivided (if applicable) to the line item columns of the projects' budget line items, and then summarised on the cash book schedule, adding up to total expenses of the month paid from the bank account.

4.1 Bank Receipts - Control

a) All receipts are to be acknowledged by issuing an official receipt. The date of receipt, its accounting and the date of deposit of the cheque/draft to the bank account should be the same. The relaxation can be only in view of banking hours or bank holidays.
b) The bank deposit slip should be attached with the Receipt Voucher.
c) No receipt should be issued on the last day of the month if the instrument cannot be deposited with the bank on the same day.

4.2 Bank Payments

Payments are usually made electronically by internet banking, by cheque or in cash. The procedures for paying electronically by internet banking or by cheque are as follows:
- Payment of an invoice is authorised by the appropriate manager's signature and an indication of the budget line item on the invoice
- The book-keeper completes the cheque requisition form, writes out the cheque and attaches the cheque and the invoice to the requisition form
- Each cheque should be secured with the words 'Not negotiable', written out or stamped on the top part of the cheque
- The agreed signatories sign the cheque as well as the cheque requisition form
- The cheque number, the date of the cheque and the project which funds the payment are noted

4.3 Controls on Payment

a) Payment Voucher has to be prepared before preparing any cheque.
b) A cheque should not be prepared, for whatever reason, if a sufficient balance is not available in the bank account.
c) All Vouchers have to be verified and approved before a payment is released.
d) Payments have to be made only against original bills and claims.
e) All supporting documents should be attached with the Payment Voucher and filed according to a serial number.
f) Cheques should be written legibly and ensure that the amount in words and figures are the same.

4.4 General Control

- All letters/instructions to the bank should be signed by the authorised signatories only.
- Cheques in advance or blank should never be signed.
- Avoid co-mingling of funds from different Donors – funding from separate donors should be kept separate accounts.
- Un-cashed cheques should be cancelled within a reasonable period.

- Cheque books should always be kept under lock and key. Only authorised persons should be allowed to access them. (Using carbon paper (black side up) under the cheque will leave an impression on the reverse of the cheque making it difficult to alter.)
- A receipt after payment by cheque should be insisted.
- Bank reconciliation statements have to be done on a monthly basis.

5 Stock-taking and Asset Management (Store Management)

This aspect applies to all fixed assets, consumables and personnel involved in procurement, administration, accounting and all staff in possession of the CSO's assets.

5.1   Inventory Management

- Inventory Management can be explained as the systematic way of ordering, storing and issuing the CSO's inventory on a daily basis.
  This requires a 3-layered approach:
  1   Ordering/Buying/Purchasing and/or Procuring
  2   Inventory Storing
  3   Issuing out of Inventory material

5.1.1 Ordering/Buying/Purchasing and or Procuring

Procurement is the process of buying inventory or material for a CSO's activities, therefore it is necessary to follow certain processes and procedures, as follows:

5.1.2 Process of procurement of items

(ie: Stationery, consumables or property plant and equipment)

Establishment of the need to procure

- Request for approval through a Purchase Request Form from the Finance Manager or ED (the level of approval depends on an agreed authorisation limits/threshold in each CSO)
- Request for Quotes from interested parties/vendors/bidders/suppliers - at least 3 quotes should be sought
- Submission of quotes
- Vendor Selection forms (demonstrating clear criteria for selection)
- Raise Purchase Order
- Delivery Note with goods delivered by the selected vendor
- Delivery acknowledgement from us confirming the completeness of delivered items
- Run the 'watch-dog' on each vendor
- Raise the voucher and the cheques for payment
- Document to collect before issuance of cheques: cash sales invoice, cash receipt, form of identification details

5.1.3 Composition of Purchase Request form

- Date:
- Location/unit/department:
- Requested by:
- Charge code:
- Purpose:
- Budget signatory approval :

PURCHASE REQUEST

Date

Department

PURCHASE REQUESTS
MUST
BE APPROVED
BEFORE A
PURCHASE ORDER WILL
BE ISSUED

Vendor # _____
Company _____
Address _____
City _____ State _____ Zip _____
Telephone _____ Fax _____

REQUESTED BY	PHONE	DEPARTMENT	JOB OR ACCOUNT NO.	PREVIOUS SUPPLIER ☐ Yes ☐ No

QUANTITY	ITEM NUMBER	ITEM TO BE PURCHASED	UNIT PRICE	TOTAL
			TOTAL	

PURCHASING DEPARTMENT USE ONLY	
DATE ORDERED	P.O. NUMBER
APPROVED BY	

5.1 Compositions of Request for Quotes:

Title: (eg: Stationery, consumables, Property Plant and Equipment)

Issue date and due date:

Complete description of goods:

Specification:

Criteria for evaluation: (eg: Ability to meet specification, ability to meet delivery due date, low and good (reasonable) price, past performance)

Composition of Vendor selection form

Specification:

Contact persons:

Price quotes:

Vendor recommended for the award:

5.2 Inventory Storing Procedure:
- Receipt of material through use of Bin Card, physical quantity and register must be the same.
- Remove any defective goods
- Properly arrange stock base on usage, quantity, frequency, items
- Weekly stock count/reconciliation to ensure accuracy, consistency with physical stock, and book (Bin) balance
- Person who placed the order should receive/check the items
- The person who requested the order should not issue it from the store
- The person who approved the request should not post information onto the software

5.3 Issue of Material
- User to complete the requisition form, which is approved by agreed supervisor
- Issue should be by a person other than recorder
- Issue might be based on different method: FIFO, LIFO (first in first out/last in first out)
- All details should be posted into the software or record book
- All unused stock must be returned back to store through use of credit memo

5.4 Control Over Store or Asset Management
- Received goods from the vendor should be compared against Purchase Order
- Updating of Bin/Immediate use of Bin Card for stock In and Out (Stock control)
- Regular checking of Inventory levels to avoid low or no stock
- Weekly stock count by another staff member of the CSO to keep accurate counts
- Reconcile the inventory stock level on monthly basis
- Person who issues items should different from the person who authorised it
- Person who authorised the items should not post into asset register
- There should be segregation of duties where possible

5.5   Terms associate with Asset Management

- Fixed Assets: Property, hardware, software, vehicles, furniture and equipment acquired for use in the course of a CSO's operation. Fixed Assets are expected to have a useful life of more than one year. Computer software purchased and/or internally developed for internal use is <u>not</u> considered a fixed asset.
- Installation costs are charged to repair and maintenance
- Freight and Transportation: Expenditure incurred to transport the asset to the asset location of use or resident location. The freight and expenditure shall be expended and not added
- Tax: Any government approved levy ie: Sales Tax; VAT applies to the purchase value of the asset purchased and shall form part of the costs of the asset
- Partitioning: Modification or attachments to a leased facility that are an integral part of the structure. Partitioning includes internal building configurations such as walls and electrical work. Partitioning costs are charged to repairs and maintenance costs.
- Repairs and Maintenance: Expenditure made to maintain an existing asset in a usable condition without extending the asset's useful life or significantly increasing its capacity
- Assets Life span or life cycle: This is the expected useful life of the asset
- Assets Register: A register containing the inventory of all the fixed assets purchased.

The Asset register shall record the following information:

- Inventory Item or Tag Number
- Assets description
- LPO Number (Limited Purchase Order – used to agree a contract for buying goods)
- Invoice Number
- Serial Number
- Model Number
- Vendor Name
- Donor Funding Source
- Useful life or project lifespan
- Project Code
- Acquisition Date (Day/Month/Year)
- Acquisition Value
- Location: Room Number, Warehouse, Home
- Condition: Good, Fair, Poor, Damaged, Not Operational
- Property Title: Local, Donor
- Disposal Date (Day/Month/Year)
- Fair Market Value:
- Disposal Value:
- Disposal Reasons: Donated, Sold, Traded
- Disposal Approval: Donor Approved
- Goods Received Note
- Other comments

5.6   Management of Asset Register

Every CSO shall maintain a fixed asset register for all assets acquired following the CSO's procurement policy. A Fixed Assets Register should be maintained at the CSO's office base. The Asset Register must be kept in a secure location and protected so that only the authorised person(s) shall have access to make inputs and amend the details.

5.7 Asset Transfer

The transfer of fixed assets between departments, divisions and branch offices can occur in any of the following situations:

- Moved to another office or building, even if the ownership remains the same.
- Transferred to another department, even if the location remains the same.
- Transferred to another primary user, even if the location and/or department remain the same.

5.8 Physical Verification of Assets

- Physical inventory of all assets must be conducted at least twice a year by the CSO
- A reconciliation of the physical inventory shall be carried out by the CSO
- During the fixed asset reconciliation, the asset list will be obtained from the accounting records/software and reconciled to the fixed assets register - thereafter, the physical verification will be carried out of all assets
- During the exercise, assets tags shall be replaced on all those assets with defaced or missing tags
- The Fixed Assets register shall be updated by the CSO after the reconciliation exercise
- At the request of the programme department, the administration department will carry out asset verification at the close of a project

5.9 Asset Disposal

A CSO's managed fixed assets are retained as long as they continue to contribute in an efficient and economical manner to the CSO's operations. This may extend beyond the useful life as the management deem as appropriate.

6 Record Keeping in CSOs

Record-keeping of fixed assets, expenditures, tax affairs, evidence of payments, bank transactions, additional financial capital, personal drawings, sales purchases, cash and credit transactions, and related records be kept for at least six (6) years.

Record-keeping can be seen as the way of keeping track of the CSO's activities, generally by creating and storing consistent, formal records.

Record-keeping is preserving information in some permanent form (written documents, photographs, recordings, etc). Records can refer to a collection of knowledge and learning from project monitoring, etc, that guide future planning and provides a recorded history of the CSO.

Record-keeping is typically used in the context of official accounting, especially for businesses or other organisations.

Record-keeping is the process of creating, managing, maintaining archiving records.

Record-keeping, therefore, is a pre-requisite to successful CSO's operations.

6.1 Record Keeping - Best Practice

- Retain financial and business records in a consistent, systematic, and reliable manner
- Ensure records can be stored so that they can be retrieved promptly and when required

- Ensure records are retained, and archived, for an appropriate period (6 yrs) and properly destroyed when they are no longer needed
- Maintain safety, confidentiality, and limit any risk of alteration or fraud
  N.B: it is advisable to keep records in a protected electronic form

6.2 Importance of effective record keeping

- Ensures a proper audit trail
- Enhances adherence to strong internal controls, eg: required approval procedures
- Documents tell the story, institutional memory, best practice
- Removes confusion and subjectivity
- It assists in reporting without any ambiguity
- Ensures the CSO's documents are accounted for
- Documents learning helps the CSO with future planning

6.3 Record/Documents to be kept by CSOs

- Accounts Books, Ledgers and Documents to be maintained can be categorised into Financial Records, Administrative Record and Programme/Projects and Organisational Records

- Administrative documents, eg: minutes of meetings, procurement, activity profile

- Finance Documents, eg: Payment Vouchers, Journal Vouchers, Payroll, Donor files – approved budgets, financial reporting requirements, etc

- CSO's organisational documents, eg: Registration documents, vehicle documents, insurance documents, building rental contract, equipment guarantees, donor contracts, management information system – donor contracts, reporting requirements, etc

- Correspondence, eg: mail in and out of the CSO

Others records may include:

- Cash Payments/Receipt Vouchers and Book
- Bank Payments/Receipt Vouchers and Book
- Summary/Daily Petty Cash Book
- Journal Vouchers and Journal
- General Ledger
- Fixed Assets Register
- Contract/Registration Documents
- Attendance Register
- Copies of Consultancy agreements
- Capital assets approvals
- File of original bills of assets purchased
- Copies of all Contracts and agreements
- Stationery Register
- File containing Bank Mandate and authorized signatories.
- Quotation file for all purchases
- Advance Payment Register (Advance to third parties and staff)
- Budget
- Procurement
- Cash management

- Cash advance
- Petty cash
- Bank account
- Finance report

6.4 Methods of Record Keeping

Physical or Hard Copy

This includes all physical documents related to programmes and projects, filed in either an alphabetical or numeric order, which are arranged in an accessible space within the CSO (non-confidential information); or Human Resource/People Management, Governance and financial information that is held in secure, locked space.

Electronic Filing

This may be done by scanning documents and retaining permanently in CSO filing, which may be: on a laptop or stand-alone computer's hard-drive, google drive, Cloud or even central server. Or it may be through a software accounting system where information is stored electronically in the chosen and secure method.

7 Fraud and Corrupt Practice in CSOs

Fraud can be seen as an act of deceiving someone or even a CSO in order to gain an unfair or illegal advantage, which might be financial advantage or may cause loss to another party.

7.1 Types of Fraud can occur when Sub-granting a CSO

7.1.1 Fraudulent Financial Reporting:

This involves false reporting of a CSO's financial activities and may include, but not be limited to, the following: Falsification of accounting transactions; intentional omission of transactions; misapplication of accounting policy to overstate expenses or understate revenue; theft of inventory.

7.1.2 Misappropriation of Assets:

This may include theft of non-current Assets; embezzlement of receipts; personal use of assets; stealing cash; paying for goods not received.

7.1.3 Other Fraud, examples include:

Expense fraud; procurement fraud; supply chain fraud; payroll fraud and forgery; bank/cheque fraud; conflict of interest; tax or duty evasion.

7.2 Fraud Triangle

A Fraud Triangle is a framework commonly used in auditing to explain the motivation behind an individual decision to commit fraud.

Components of the Fraud Triangle
1. Pressure
2. Opportunity
3. Rationalization

1. **Pressure:**
   This may cause a person to commit fraud, eg: a medical bill, expensive taste, personal financial problems.

2. **Opportunity:**
   This is the ability for someone to commit fraud through weak internal controls, or poor management oversight.
3. **Rationalization:**
   This is when a fraudster is trying to reconcile his/her stealing behaviour with a commonly accepted notion of decency and trust.

7.3 Traits or behaviour of a fraudster

1. Don't like people to review their work
2. Strong desire for personal gain
3. Living beyond their means
4. Unable to relax/tense
5. Don't take vacations/annual leave
6. Carry out excessive overtime

Definitions of Key Terms:

7.4 Red Flag and Detection of Fraud

Red flags are the factors that, if mentioned in any CSO activities, should raise concerns and require urgent action.

Procurement - Red Flags

Manipulated vendor spec/bidding docs	*Narrow specs, subjective criteria, split tenders below threshold limits, limited advertising, multiple contracts to same supplier, short deadlines, non-sealed bids*
Bid-rigging and insider information	*Repeat awards, common patterns, cartel, last minute, winning bids just lower, staff pushing suppliers, social contact with bidders*
Biased supplier prequalification	*Repeat pre-qualification, no street address, shell companies, similarities of bids, sequential bid numbers*
Manipulated bid evaluation, contract award and contract execution	*Delays, shadow bidders, repeat awards, changes post award*
Surplus procurement	*Poorly documented needs assessment, relief goods in markets, urgent purchases at year end, overstocked warehouses*

Supply of substandard goods or services	*Inflated prices, short delivery, goods not matching sample, expiry dates, frequent change orders*

Procurement - Fraud Prevention

Manipulated vendor spec/bidding docs	*Technical specialists draft the specs – not procurement staff, brand names or equivalent, conflict of interest declaration, use standard specs, zero tolerance message*
Bid rigging and insider information	*Train staff, diverse recruitment, highlight integrity to staff and suppliers*
Biased supplier pre-qualification	*Clear objective criteria for pre-qualifying, segregation and rotation, publicise, cross check pre-qualification criteria, vet the bidders, integrity requirements for pre-qualification*
Manipulated bid evaluation, contract award and contract execution	*Minimum number of bids, transparency, segregation and rotation, time limit special emergency procedures, include in M&E*
Surplus procurement	*Double-check with needs assessment, keep track, consult beneficiaries, mark supplies as not for re-sale*
Supply of sub-standard goods or services	*Set clear standards, pre-establish limits for change orders, contract integrity clause, monitor on the ground, consult beneficiaries*

Asset Management - Red Flags

Payment for access to aid resources or beneficiaries	*Requests for meetings by officials, road-blocks controlling access to sites, repeated customs delays, visa refusals*
Diversion during transport	*Incomplete shipments arriving, numerous reports of damaged supplies, tampered packages, incomplete/altered documentation, unusually long delivery time, high mileage on delivery trucks, relief items on market sale*

Falsification of inventory documents	Document copies, handwritten, numbers don't add up, pristine sets of records, missing documents
Diversion during storage	Manually prepared distribution units (eg: scoops) undersized, tampered packages, doughnut stacking, staff access at odd hours, rounding up, frequent corrections in distribution ledgers

Asset Management Protection

Payment for access to aid resources or beneficiaries	Negotiation skills, never meet alone, formal team, ID the correct counterpart, joint approach with other agencies
Diversion during transport	Agree security measures with transporters, pre-plan route, document the supply chain, contract transporters as responsible
Falsification of inventory documents	Use IT labelling, train staff in stock control, safety measures, limit access to inventory docs, separation of duties (order, receive, despatch)
Diversion during storage	Secure facilities, check regularly, separation of duties, trained staff

Transport - Red Flags

Unauthorised private use of vehicles	Excessive number of vehicles, vehicles driven outside hours, higher than expected mileage, physical deterioration
Corruption in vehicle repairs and maintenance	Higher costs than expected, variances in cost per/km between vehicles, counterfeit parts, frequent insurance claims, unnecessary disposal
Diversion of fuel	Unusually high fuel use, variances in costs per/km, expense claims for fuel costs

Transport - Protection

Unauthorised private use of vehicles	*Clear written procedures. Strict records. Fleet management responsibility and skills*
Corruption in vehicle repairs and maintenance	*Written service schedule, proper procurement process for workshops, spare part inventory*
Diversion of fuel	*Fuel sheets/log book, compare fuel use over time between vehicles, spot checks*

Human Resources - Red Flags

Bias in recruitment, deployment, promotion or supervision	*One person receiving job applications, HR staff from one ethnic grouping, pressure to skip vetting because of 'urgency' of recruitment, narrow job specs favouring one candidate*
Short-circuiting of HR controls in an emergency	*Non-vetted or inducted temp staff, references not verified, resistance to ex-post vetting of temp staff*
Conflict of interest	*Lifestyles above salary, non-disclosure of relationship, decisions not objectively justifiable*
Extortion, intimidation and coercion of staff	*Unusual signs of staff stress, odd explanation for unforeseen field payments, aggressive behaviour by local authority figures*
Behaviour conducive to corruption	*Detrimental local gossip or media reports about aid agencies, extravagant behaviour by staff (especially expats)*

Human Resource - Prevention

Bias in recruitment, deployment, promotion or supervision	*Transparency, clarity on nepotism/cronyism, trained HR staff, ensure vetting, performance review*
Short-circuiting of HR controls in an emergency	*Include HR staff in surge capacity, keep procedures simple but minimum standards apply, inductions, exit procedures*
Conflict of interest	*Explain what it means, encourage staff diversity, ask all staff and governing body (including temporary staff) to sign a conflict of interest declaration form*
Extortion, intimidation and coercion of staff	*Encourage reporting and escalation, security training, co-operate with other agencies*
Behaviour conducive to corruption	*Keep in touch with beneficiary opinion*

Finance - Red Flags

Operating in a cash environment	*Multiple requests for cash payments to beneficiaries, financial records altered or suspiciously uniform*
Issues in cash-based programming	*Payments through intermediaries, cash payment receipts with similar signatures or thumbprints, currency exchange transactions without bank documentation*
Financial fraud and embezzlement	*Staff unwilling to take leave, invoices with payment to private accounts, lifestyle, missing documentation*
Improper accounting	*Frequent system 'crash' requiring re-input, lack of segregation in job tasks*

False or inflated invoices or receipts	*Copy invoices, unspecified consulting fees, signs of forgery*
Payroll and claims fraud	*Sudden increase in numbers, salary increases*
Payment for local permits or access to public services	*Deliberate delays, difficulty in accessing public services, payment to agents*

Finance – Fraud Prevention

Operating in a cash environment	*Clear written guidelines, restrict access, receipts, separate in and out, cash security, document, spot checks*
Issues in cash-based programming	*Reputable bank, professional couriers, plan movement discreetly, check payroll, security regulations*
Financial fraud and embezzlement	*Know the response and reporting methods, separation of duties, document authority levels, share funding info with other agencies*
Improper accounting	*Follow up unusual transactions, financial skills in surge capacity, adhere to written financial and administrative procedures; system of multi-signatures for expenditure approvals*
False or inflated invoices or receipts	*Check invoices against actual goods/services received, keep accounting staff separate from suppliers*
Payroll and claims fraud	*Check pay with HR, rotate functions, check temp staff salary receipts*
Payment for local permits or access to public services	*Anti-bribery training for staff, co-ordinate with other agencies*

7.5 General Control in preventing fraud in a CSO

- Fraud awareness training
- Strong internal control process
- Encourage culture of compliance
- Clear segregation of duties
- Fraud brainstorming session

- Confidential reporting mechanism

In conclusion

This Financial Management OD Guide provides a selection of tools to support CSO's in their efforts to ensure that effective and efficient systems of accounting are in place. There is much more to financial management than that outlined in this Toolkit, but it is anticipated that this introduction to the components of Financial Management will support CSOs to strengthen their financial systems.

Even a strong CSO that is inclusive, with good governance and leadership in place, requires solid financial and organisational competencies to manage their financial and human resources and operations and to demonstrate that their internal systems are sufficiently in order to strengthen the CSO as drivers of sustainable change.

The basic tools discussed are fundamental requirements for all CSOs, CBOs and CSO Networks, who all need to comply with local and national regulatory frameworks, and to be financially accountable to their donors, constituents as well as to key government agencies. For those CSOs with the hardware to support them, there are many financial management software packages that can be utilised by CSOs.

The terms 'Effectiveness and Efficiency' enter into the Financial Management discussion. Effectiveness is often described as 'doing the right things', whereas efficiency is defined as 'doing things right'. These are both very important concepts to keep in mind when managing and implementing development projects - it is important to consider that both the financial management team and the programme and project management team need to engage closely to ensure that the work of the CSO is both effective and efficient, it is their joint efforts that make a difference.

'Transparency and Accountability' are another two words that are important to Financial Managers in that they make an often complex subject more user friendly for those who are not financial specialists but want to be able to read and understand financial reports. Financial reports in a CSO, therefore, need to be easily understood beyond the finance department. This means that financial management, and budgetary processes, must be accessible to the CSO's Board of Trustees, its staff, and to the diverse range of external stakeholders, constituents and donors. Details should be provided in a Financial Procedures Manual, for all to use. Good financial management processes are the driver of a strong CSO and integral to the CSO's reputation, influence and success.

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