



## **FINANCIAL POLICY AND PROCEDURES**

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## **ACRONYMS**

BH	Budget holders
BoT	Board of trustees
DDG	Deputy Director General
DG	General Director
HQ	Headquarters
HR	Human resource
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
PO	Purchase order
VRC	Vendor review committee
ZZF	ZamZam Foundation

## 1.0 INTRODUCTION

A well-managed organization needs financial rules and procedures by which to conduct its business. Financial rules and procedures help to:

- Ensure consistent treatments of staff and expenses.
- Ensure compliance with donor and audit requirements and the maintenance of accurate financial records
- Establish adequate financial and management controls as required by the ZZF Board of Trustees and as expected by donors and other stakeholders
- Establish an internal control system as required by statutory law

ZZF is an independent NGO registered under Kenyan and Somalia law. ZZF has developed its own set of distinct financial rules and procedures, which are set forth in the following pages. This manual aims at setting out policies and procedures that will ensure compliance with the requirements of:

- Non-Governmental Organizations Co-ordination Act, No 19.
- International Accounting Standards (IAS).
- Kenya Revenue Authority rules and regulations.

This Finance Manual is a living document and will continue to be developed and updated over time. Authority over the manual resides with the General Director. No changes may be made to the manual without General Director's approval.

Circumstances not outlined in this manual will be considered by the BoT and/or the DG on a case-by-case basis, and, if applicable, incorporated into subsequent revisions.

ZZF intranet will always have the latest version of this manual.

### **1.1 Scope of the Rules**

The rules outlined in the finance and the procurement manual apply to ZZF Headquarters in Mogadishu (hereafter referred to as HQ), and to the field offices where ZZF has staff present (hereafter referred to as Offices). This includes all monies recorded within ZZF central accounting system regardless of their nature, source or purpose. All money received or expended on ZZF activities is to be recorded in accordance with these policies.

On occasion specific donor rules and regulations may differ with the policies of this manual. In such cases, the more stringent rules, whether the donor's or ZZF should be followed.



## **2.0 ACCOUNTING POLICIES AND DEFINITIONS**

### **2.1 Income and Expenditure**

All income is accounted for on cash. Under the cash basis of accounting, income is recognized in the year it is received or if confirmed to have been in transit at the balance sheet date. Expenditure is accounted for on an accruals basis, provided that this is in accordance with the donor agreement.

#### **1.1.1 Gifts in Kind**

Receipts in kind shall be accounted for in the manner used for the purchase of supplies. All donations and contributions, whether in money or material, shall be acknowledged by ZZF receipt and a “thank you” letter.

#### **1.1.2 Donor Agreements**

Donor agreements are contracts between ZZF and the donor, under which the donor agrees to fund particular activities and ZZF agrees to implement those activities. The agreement may be for unrestricted funding, or may impose restrictions as to the use of the funding (e.g. General Programme, Thematic or Project).

All donor agreements must be signed by two signatories and one of the signatures should be either be the DG or DDG. Exceptions and approvals to sign agreements in the field may be granted in writing, on a case by case basis, by the DG.

#### **1.1.3 Restricted Funds**

These are funds received from donors in accordance with specific agreements. These funds are subject to a restricted use, either by activity (programme or component within a programme) or by geographic location, as specified in the donor agreement.

#### **1.1.4 Currencies**

ZZF accounting records are maintained in US dollars. Transactions denominated in other currencies are translated to USD at rates of exchange prevailing at the time of the transaction. Balance Sheet account balances denominated in other currencies are translated to USD at the exchange rate prevailing at the end of the month and at year-end. All exchange differences are recorded through the income and expenditure statement in the Exchange Gain/Loss account.

#### **1.1.5 Accounting and Records**

ZZF is responsible for ensuring that appropriate accounting records are maintained so that it can:

- Collect all income to which it is entitled
- Ensure proper expenditure of all funds
- Respond effectively to both internal and external requests for financial information (i.e., regular programme financial reports and donor reports).

One set of integrated accounts must be maintained, including all financial activity undertaken by the Office. These records should be kept using QuickBooks, the accounting software systems approved by ZZF HQ.

#### **1.1.6 Accounting Code Structure**

All financial transactions must be recorded to facilitate the production of regular financial management reports and financial statements. Each item of income and expenditure must be allocated to the account code to which it relates. In addition, each transaction is allocated to a budget line code that indicates the nature of the particular item. For income items, this code identifies the donor; for expenditure items, it identifies the type of expense. All budget holders will be provided with a list of account codes and budget lines that relate to their responsibilities.

### **1.1.7 Budget Holder's Authority**

A Budget Holder is an individual with responsibility for authorizing the expenditure of ZZF funds. Heads of Office and Heads of Unit are the main budget holders. In some instances, this may be delegated to other staff members for certain expenditure. Such delegation shall be explicit, in writing and approved by the DG or DDG.

### **1.1.8 Restrictions on Expenditure**

All expenditure must be in accordance with the purpose for which funds were given. This means that money given for specific projects or other purposes must be restricted to those projects or purposes, and any Indirect Cost Recovery (or overhead) rate charges must conform to those agreed in the contract through which the funds were received. Such funds may not be spent on the following:

- To respond to emergency situations in ZZF area of operation
- Office set-ups
- Any purpose approved by ZZF board of trustees

### **1.1.9 Time Sheets**

The monthly payroll process consists not only of the calculation of monthly salaries, but also the allocation of payroll expenses to specific programmes or units (cost centres). As the primary instrument in the payroll process, the time sheet documents:

- Attendance
- Time spent by a staff member on one or more programmes during a specific time period

Time worked is usually charged against a specific programme or unit but it may also be charged against specific donor funding when a donor has restricted funding to specific activities.

### **1.1.9.1 Time Sheet Format and Content**

The time sheet must be completed by all staff, whether expatriate or national, on a monthly basis. The form may be completed manually or in Excel. However, all signatures and dates must be handwritten in ink. Time sheets should include:

- Each programme or unit that a staff member worked on during the month
- The number of hours worked in support of each programme or unit
- The percentage of time spent on each programme during the month

The percentage of time spent on a particular programme for the month should be calculated as follows:

- Total programme time for the month divided by total work time for the month
- Total time worked during the month excludes time off
- The cumulative total of the percentages for all programmes must equal 100%
- The total time paid must equal total time worked plus any qualifying time off (e.g. vacation or illness) and any time worked that is not applicable to a specific project
- It is important that hours entered for each programme are based on actual hours worked

### **1.1.9.2 Time Sheet Submission and Approval**

Time sheets are due at the end of the month or by the first working day of the following month. Submitting time sheets accurately and on time is the responsibility of the staff member. The procedures for submitting time sheets are as follows:

- Staff member completes and signs his/her timesheet for the month and submits it to a supervisor for approval. Staff members who will be absent or otherwise unavailable when time sheets are due must make arrangements to complete and submit time sheets on time.

- Supervisor reviews the form for accuracy, completeness and reasonableness and signs it to signify approval. Supervisors who will be absent from the office or otherwise unavailable must make appropriate arrangements for the approval of the time sheets.
- Supervisor forwards all signed time sheets to the Office's Finance Manager (or other individual designated by the Head of Office)
- Any corrections that may be required to a time sheet after submission should be made by crossing out the item to be changed and entering the correct information. Corrections must be initialed by both the staff member and supervisor.

## **3.0 MANAGEMENT ACCOUNTING**

### **3.1 Financial planning and budgeting**

#### **Key Points**

- All financial plans must be aligned with ZZF agreed strategic objectives and realistically represent the activities planned in the country.
- An annual financial plan must be submitted for annual approval detailing the total programme needs year and funding status. This plan must be updated quarterly to reflect changes to provide information to fundraisers and management.
- The DG is responsible for approving annual budgets and ensuring their overall accuracy. Budget holders are responsible for creating and approving phased budgets & budget revisions, ensuring they are accurate once transferred to the finance system.
- Financial plans and budgets and their subsequent revisions must be submitted timely
- Agreed funded budgets must be put on the finance system within 30 days of approval:
  - The approved Annual Budget must be put on the system
  - In order to achieve consistent and meaningful analysis at all levels of ZZF, budget variances must be analysed and revised
  - Where significant changes occur (e.g. unexpected material changes to activity plans change or costs), the budget holder must update the budget more frequently.
- Detailed budget assumptions and calculations must be documented, filed and handed over if the budget holder changes

#### ***Responsibilities***

- The DG is responsible for the Operational & Financial Plans and Donor Budgets and must ensure that all appropriate staff is fully involved in the planning process (programme managers, technical experts, finance, logistics, HR etc.). S/he can delegate actions to

budget holders but retains overall accountability and must approve country budgets before they are submitted.

- BHs must ensure that their respective budgets are accurate, realistic, reasonable, and fully cover all costs.
- Finance is responsible for supporting the DG and BH by providing updated actual expenditures, latest budgets, past financial information, and financial assumptions for the planning period. Finance will consolidate the budget to produce the total country/organizational budget and provide a strategic overview to support the DG.

### **3.2 Annual Planning Overview**

The Annual budget is submitted to Board of trustees on an annual basis, but can and should be updated throughout the year.

The Annual budget is primarily a planning tool to support country programmes in achieving their objectives. It outlines the objectives for each thematic area of work for the year and how they link to long term objectives, and specify the main activities and resources required to implement them.

The information provided in the plans is used to guide line managers' decision making and to communicate a summary of programme activities to staff across ZZF.

### **3.3 Budget monitoring and review Key Points**

There must be monthly meetings where the General Director, budget holders and finance staff review every budget as part of the programmatic review process. Budget holders must explain material budget variances against the latest agreed quarterly budget, identify, record and minute appropriate resulting actions. Subsequent monthly meetings will review progress.

#### ***Responsibilities***

The DG is accountable overall for the country programme budget management. S/he must clearly delegate responsibilities as it would be impossible for one person to manage all budgets to the level of detail required.

The following table clarifies the separation of duties between budget holders and finance staff.

Budget Holders	Finance Staff
<b>Budgeting</b>	
<ul style="list-style-type: none"> <li>• Participate in the overall budget discussion and preparation, particularly during the annual planning round Budget Preparation (income &amp; expenditure)</li> <li>• Code the budget in ZZF format and prepare mapping to the donor format</li> <li>• Ensure cost allocation basis is clear and will be easy to track for actual charges (ask for finance help)</li> <li>• Detailed budget assumptions and calculations must be documented and handed over if the budget holder changes.</li> <li>• Agreed budgets must be put on the finance system within 30 days of approval</li> <li>• Phasing/re-phasing budgets (grant &amp; general / linked funds) in accordance with latest activity plans</li> <li>• The DG is responsible for approving Budgets.</li> </ul>	<ul style="list-style-type: none"> <li>• Doing overall financial analysis based on system generated information.</li> <li>• Participate in the overall budget discussion, particularly during the planning round</li> <li>• Organizing (through templates etc.) and providing information on staff, vehicles, running costs, taxation costs, and budget assumptions</li> <li>• Explaining the coding structure and ensuring the consistency of coding choices across the programme in line with ZZF rules and alignment with donor requirements.</li> <li>• Providing information such as exchange rate and inflation rate.</li> <li>• Assisting the budget holders in all of the budget preparation work.</li> <li>• Checking the budget (YTD &amp; total period) in the finance system is the same as that approved (grant or general funds)</li> <li>• Sending budget holders all approved budgets on a regular basis</li> <li>• Checking that the budget is produced in accordance with the relevant guidelines before budgets are approved and posted into the accounting systems.</li> <li>• Assisting budget holders in the phasing/rephrasing process of general administrative costs</li> </ul>
<b>Monitoring Expenditure</b>	
<ul style="list-style-type: none"> <li>• Always act within the limits of the Scheme of Delegation</li> <li>• Give clear written onward delegation of parts of the budget where relevant (B/H remains accountable &amp; must train and monitor)</li> <li>• Bringing risky decisions to management attention before making them</li> <li>• Identify accruals needed at year end.</li> <li>• Authorizing commitment to expenditure AFTER checking: Is the expenditure necessary and in line with objectives, value for money, compliant with donor rules / ZZF policies (e.g. procurement), within budget, correct code, all related costs identified (e.g. running</li> </ul>	<ul style="list-style-type: none"> <li>• ❖ Keep the budget holder list of authorized signatories and limits and ensure it is up to date (part of the Budget Holder Scheme of Delegation)</li> <li>• ❖ Making payments AFTER checking:</li> <li>• the budget holder authorization is within their approval authority,</li> <li>• the source document completeness, spot checking the reasonableness of codes,</li> <li>• Is the payee the correct person / organization?</li> <li>• Are the bank account details correct?</li> <li>• compliance with local taxation</li> <li>• Prior partner payments justified &amp; activity</li> </ul>



<p>costs, transport), partner assessments are complete and contract signed with them.</p> <ul style="list-style-type: none"> <li>• Authorizing payments AFTER checking:</li> <li>• commitment was correctly authorized, in line with purchase requisition or order and procurement procedures followed</li> <li>• goods/services have been received and full supporting documentation is available</li> <li>• Partner obligations fulfilled – prior payment has been justified &amp; project activity has been completed according to plan / quality standards.</li> <li>• Reviewing budget monitoring variance reports and detailed transaction reports to understand unexpected variances.</li> <li>• Identify &amp; authorize adjustments to be made</li> <li>• Understand and take action to mitigate the impact of exchange rate variances on their budgets</li> </ul>	<p>signed off by senior manager or technical expert.</p> <ul style="list-style-type: none"> <li>• Providing timely and accurate financial management information including ad hoc analyses requested for by the budget holder.</li> <li>• Calculate the cost allocations based on actual cost driver and ensure reconciliations are made so that 100% charged. Get the allocations authorized by the budget holders.</li> <li>• Account for FX gains &amp; losses, highlight risks and advice on mitigating actions.</li> <li>• Preparing adjustment journals (GJ) and post to the accounting system after getting approval from BH.</li> <li>• ❖ Preparing for the monthly finance meeting:</li> <li>• Preparation of budget monitoring reports in donor format</li> <li>• Chairing the Monthly Finance Meeting</li> <li>• During the monthly finance meeting providing technical comment in all of significant variances</li> <li>•</li> </ul>
<b>Grant Management (some “B/H &amp; finance roles” will be taken by a Grant Manager where they are in place)</b>	
<ul style="list-style-type: none"> <li>• Prepare donor budget</li> <li>• Ensure all expenditure is in line with donor compliance rules</li> <li>• Communicate and agree budget amendments with the donor BEFORE changing activity plans</li> <li>• Ensure the narrative and financial donor reports are giving consistent information and that there is a financial commentary</li> <li>• The General Director is accountable for all donor reports, and must ensure the quality is acceptable before submission (see grant scheme of delegation)</li> </ul>	<ul style="list-style-type: none"> <li>• Check financial aspects of donor budgets, proposals and contracts</li> <li>• Provide information on donor compliance</li> <li>• Produce the donor financial report and check it matches the ledger</li> </ul>

## **4.0 ACCOUNTING FOR INCOME AND EXPENDITURE**

### **4.1 Income**

Income must be recognized when we are legally entitled to it and reasonably certain of receipt. The DG is responsible for Income budgeting and claiming and collecting income as soon as it is due.

The budget holder is responsible for budgeting for and managing income. The DG must ensure that a “Finance and admin manager” claim and collect the income. The finance manager must ensure that budgeted and actual incomes are correctly accounted for in the finance system.

### **4.2 Expenditure & Payment Controls**

#### **Key points**

- Expenditure must not be incurred before a budget is authorized.
- Staff have a responsibility to only incur expenses that are in line with ZZF objectives, necessary and good value for money.
- Expenditure commitments & payments must only be signed when accompanied by a complete budget code, auditable documentation and relevant budget holder authorization.
- All non-payroll expenditure must be in line with the procurement process.
- Expenditure must be accrued at a minimum annually for statutory reporting, and may be done at other times (e.g. for donor reporting). At the end of each accounting period (including the year-end) the balance on the accruals balance sheet account must be reconciled to the list of current unpaid accruals.

The budget holder is responsible for:

- Authorizing expenditure and ensuring all donor procedures are followed and that full auditable documentation is attached to the payment request. Budget holders should authorize expenditure based on the principle of spending prudently as if it were the staff member’s personal money.

- Identifying accruals & prepayments, usually at Y/E & when a grant closes

Finance is responsible for:

- Making payments, accounting correctly for expenditure, accruals & prepayments, checking that procurement procedures have been followed, filing full documentation for access during audit, and advising on correct policies and procedures to be followed, highlighting to management any deviations.

#### **1.1.10 Expenditure Authorization**

There are two parts to expenditure authorization:

**Authorization of a commitment** means making a promise that ZZF will pay a third party providing they fulfil the terms of the agreement e.g. signing a purchase order to a supplier, signing a construction, employment or partner contract. When authorizing an expenditure commitment, a budget holder must consider:

- Is the expenditure necessary and in line with objectives?
- Is value for money being obtained?
- Have donor compliance and ZZF policies been observed (e.g. procurement rules, anti-terrorism).
- Is the expense within the approved budget?
- What budget and account code the expenditure will be coded to?
- Have all related costs been considered e.g. running costs, subscription costs, transport, licensing?

**Authorization of a payment** means signing a bank / cash voucher, cheque or bank transfer to make a payment after the good or service has been received by ZZF. When authorizing the payment the signatory must consider:

- Has the expenditure been correctly authorized by the appropriate budget holder?
- Do the quantities and values agree to the purchase order?

- Have ZZF or donor purchasing procedures been followed?
- Is there proof that the goods or services have been received in line with the agreed order?
- Is the payee the correct person/business, and are the bank account details correct?
- Is the required original supporting documentation in place to satisfy audit requirements?

### **Key Documents Required for a Payment Audit Trail**

Authorization must not be made on the basis of statements or photocopies of orders / invoices, as this increases the likelihood of duplicate payments.

#### ***Purchase Requisition (Field orders or Local Requisitions)***

A purchase requisition (PR) is completed by programme staff members when goods or services are required.

#### ***Purchase Order (Local & International)***

Once a PR has been approved, the purchasing department will assess supplier options (quotes/tender as required by procurement policy). A Purchase Order will then be raised to make a commitment with the supplier (Local Purchase Order (LPO)). If the cost is greater than on the PR, then additional approval is needed (a new PR or budget holder to sign the LPO).

#### ***Contract***

For all contractual payments, including partner payments, the letter of agreement or relevant contract extract must be attached to the payment voucher.

#### ***Invoice / Receipt***

An invoice or a receipt should be obtained from the person or organization that provides the goods or services. If this is not possible, ZZF receipt voucher must be completed and signed on receipt of the goods or service. Original invoices should be stamped "PAID" once they have been paid to further reduce the likelihood of duplicate payments.

### ***Proof of Goods Received***

A goods received note may be used as proof the goods have been received by ZZF either in their offices or stores/warehouses. Alternatively there may be a note / signature of the person receiving the item / service (e.g. receipt of a service, supplier delivery note).

### ***Cash/Bank Payment Voucher***

The Cash/Bank Payment Voucher must be verified by a Finance Manager and approved by the budget holder. Once the above documents have been gathered the payment is processed by finance.

### **Payment Process (Cash / Cheque / Bank Transfer)**

The following payment procedure relates to a payment made when the exact expense is known and the supplier can collect payment in the office

Stage 1: Payment Request	Stage 2: Checking	Stage 3 : Authorization	Stage 4: Payment Preparation	Stage 5: Bank payments only	Stage 6: Payment
<p>Invoice or bill is received the appropriate documentation (see below) must be attached by the person requesting payment and passed to the budget holder.</p>	<p>Budget holder checks the invoice is in line with the Purchase Order, the codes, the proof of receipt and that the documentation is auditable. (see checks above)</p>	<p>IF the payment is within the budget holders limit: Budget holder authorizes the payment and passes to finance</p> <p>OR</p> <p>IF the expense relates to the budget holder’s personal expense or exceeds that person’s authorisation limit: Budget holder signs and passes up the authorisation chain to a person with appropriate delegation of authority, who authorises the payment and passes to finance</p>	<p>Cash / Bank Payment voucher completed by Finance</p>	<p>Cheque, bank payment voucher and supporting documents are passed to bank account signatories (e.g. Executive Director). Cheque is signed checking all details – payee, date, amount etc. and that it has been approved by the budget holder. Signatories sign the bank payment voucher</p>	<p>Finance Officer issues the cash/Cheque for payment to the supplier, who signs the cash/bank payment voucher as proof of receipt</p> <p>Top copy of the voucher &amp; supporting documentation is filed in numerical order for audit.</p>

**Required documentation for Procurement Process Accountability**

<b>PROCUREMENT LIMITS (US\$)</b> <i>The procurement limits will be revised overtime</i>	<b>PURCHASING RULES</b>										
0 – 500	Small Purchase	Y	0	N	N	N	Y/N	Y	Y	Y	Budget Holder as per Scheme of Delegation
501 – 3,000	Medium Purchase	Y	3	N	N	N	Y	Y	Y	Y	
3,001 – 20,000	Local closed tender	Y	3	N/Y	Y	Y (contract or PO)	Y	Y	Y	Y	
20,000 – 100,000	Local open tender	Y	Y	Y	Y	Y (contract or PO)	Y	Y	Y	Y	
100,001 – 250,000	International Tendering Procedures	Y	Y	Y	Y	Y (contract or PO)	Y	Y	Y	Y	ED
250,000	International Tendering Procedures	Y	Y	Y	Y	Y (contract or PO)	Y	Y	Y	Y	BoD

### **4.3 Debtors, Creditors & Bad Debt**

#### **Key Points**

- Debtors (amounts owing from any person / organization except for grant debtors -see below) must be registered in the accounts as soon as they are known to exist, and must be monitored closely.
- Every effort must be made to recover debt using legal means. As soon as it is known that a debt is unlikely to be recovered, then the debt must be written off, against general funds, after authorization.
- All bad debts over US\$5,000 must be notified to the Board of trustees.
- Creditors are amounts that ZZF owes to another organization (such as a tax creditor, or a refund to a donor) and must be registered in the accounts as soon as it becomes clear we owe the money.
- All debtor and creditor accounts must be reconciled monthly, and the reconciliations must be authorized by the DG as part of the Monthly Management Control process.
- Grant Debtors (amounts owing from a grant donor) must be registered in the accounts as part of the year end process, when all grant debtor and creditors must be carried forward to the next financial year.

#### **1.1.11 Bad Debt**

ZZF cannot afford to waste resources that should be used for the benefit of vulnerable communities. Every legal effort must therefore be made to recover debt. This may include selling a debt onto a debt collection agency if appropriate.

If a debt cannot be recovered then it must be written off (charged as an expense) immediately. Usually the bad debt will be charged against general funds. It is not acceptable to ignore or “hide” debt on the balance sheet just because there is not enough budgets in the current year. The problem is better dealt with sooner not later and is likely to become a performance issue if not dealt with transparently.



## **4.4 Salary Advances**

### **Key Points**

Local HR policies must be clear on when and how often a salary advance may be taken. The following points must be taken into account:

- An advance may never be greater than the salary due to the employee on that date, e.g. only 50% of salary would be advanced half way through the month.
- A salary advance must be repaid in the month it is taken, otherwise the DG must be notified for authorisation to treat it as a staff loan.
- A staff member may not take a salary advance in the last month of their contract.
- International Staff Advances must be kept to a minimum. International staff must set up their own bank account, unless there is no facility locally or if they are on short term contracts (under 6 months).

### **1.1.12 Cash Advances – Fixed**

Person requiring a fixed monthly advance each month completes a “Fixed Deduction Form” (FDF) and has it authorised. The Finance Manager should ensure that the form has been completed and authorised correctly.

The amount will be deducted and remitted to the programme for the months detailed on the form. You only need to send the form to HQ Payroll once. You do not need to complete a Salary deduction Form (SDF).

To amend a previous request, complete a new form and write across the top of the form “Replacement of Existing Instruction”. This will ensure the instruction is not duplicated.

### **1.1.13 Advance of Cash - Variable**

Person requiring cash completes a Salary Advance Authorisation Form and has it authorised. The Finance Manager will ensure that the form has been completed and authorised correctly. A Cash Payments Voucher is prepared and the original is attached as the supporting authorisation document.

The person making the request signs the Cash Payment Voucher in the Received by Section to acknowledge receiving the cash.

## **4.5 Payroll**

### **Key Points**

The DG must authorize the payroll for the country programme. Responsibilities of the DG are to:

- Check and authorize the payroll control sheet
- The DG is accountable to ensure local tax legislation is followed, taking professional advice as required (DG usually delegates responsibility to the Finance Manager to action)
- Ensure that non tax compliance is reported.
- Ensure that donor requirements for salary allocation are met.

### **HR to:**

- Provide all staff information on salary terms and conditions and changes (e.g. up to date staff list, starters, leavers, pay scales & increases, time sheets, loan agreements, budget codes etc.) to the person calculating the payroll.
- Verify payroll before authorization by the DG.

### **Finance to:**

- Ensure all salary advances to staff are recovered in the month they are.
- Calculate the payroll control sheet and make payments after authorization by General Director
- Ensure tax and social security payments are deducted accurately and paid on time according to local legislation.
- Ensure codes are up to date with the latest changes.
- Ensure salary charges are made in accordance with ZZF and donor requirements e.g. as per timesheets.

### **Payroll control sheet**

A payroll control sheet must be prepared which, for each member of staff, must clearly indicate:

- Gross salary
- Any benefits payable
- All deductions made from the individual's salary (tax, advances, loans etc)
- Full budget code details against which an individual's costs will be charged.

A standard format should be used so that comparisons can easily be made with previous months' payrolls.

### **Payroll reconciliation**

It is useful to try and identify any changes in the month's payroll and bring these to the attention of the General Director. This process will also help to detect any errors made. The payroll reconciliation explains why the amount paid this month differs from that of last month.

The main factors are likely to be:

- Joiners
- Leavers
- Salary changes
- Changes in overtime

### **Payroll authorization**

The authorization of the payroll is an important step to ensure that errors are identified before payments are made and will help to reduce the likelihood of fraud. The person responsible for authorizing the payroll (usually the DG) should complete a number of spot checks such as:

- Review of the reconciling differences noted on the Payroll Reconciliation. Any reconciling differences should be agreed to supporting documentation, for example a letter of appointment;

- A comparison of a number of individuals' salaries as detailed on the current months Payroll Control Sheet with the details shown on the previous months Payroll Control Sheet;
- Reviewing the deductions made from individuals' salaries in respect of staff loan repayments, showing staff loans outstanding, and the loan agreements;
- Reviewing tax deductions - tax is likely to be a fairly stable proportion of gross salary and this percentage would not be expected to change significantly from month to month. If a fixed cap has been put on tax payments, spot check the calculations for a couple of employees.
- Confirming that individuals have been coded to the appropriate Programme, Project, Sub-Project and account codes;
- Confirming the arithmetic accuracy; and
- Confirming that the Payroll Control Sheet has been prepared and checked by appropriate members of staff (e.g. Finance Mgr, HR Manager)

### **Pay slips**

In many countries, when a salary payment is made, the employee is given a "pays lip". This can often be a legal requirement and it tells them what their net salary is and provides a breakdown of their basic salary noting any allowances and deductions.

Signed pay slips can be used as evidence that the employee has received their salary – although where payment is made by bank transfer it is not necessary to ask employees to sign a pays lip. Where pay slips are used to support the payment of salaries to individuals the signed copy of the pays lip should be retained on file as supporting.

### **Payment of Tax & Social Security**

It is the responsibility of the DG to ensure that tax is paid in accordance with local legislation. Professional advice should be sought locally to ensure compliance at least on annual basis. If there is any non-compliance with local tax/ social security laws then this should be brought to the attention of the DG.

#### **4.6 Travel Policies and Procedures**

The following travel policies and procedures apply to all ZZF staff. For grant funded travel, donor regulations must be respected when making travel arrangements. ZZF policies already reflect many of the most common requirements. There are, however, instances in which donors may place additional requirements or limits on travel approvals and costs (for example, projects funded by USAID or EC). Grant agreements should be carefully reviewed to ensure compliance.

Briefly, the steps required for travel (and the sections detailing them) are:

- Obtain Travel Authorization (4.6.3)
- Obtain a cash advance, if needed (4.6.4)
- Coordinate travel through designated travel agency (4.6.6)
- Submit an Expense Report (4.6.11) and, if applicable, clear travel advance (4.6.11.2)

##### **1.1.14 General Policies**

Staffs travelling on ZZF business are expected to exercise prudence in incurring expenses. Excessive costs, circuitous routes, or unjustified luxury accommodations and services are not allowable.

##### **1.1.15 Accompaniment by Dependents**

Staff travelling on ZZF business may be accompanied by dependents at the staff member's expense and with prior permission from a supervisor.

##### **1.1.16 Travel Authorization**

For all work-related travel outside the assigned office, staff should fill out a Travel Authorization form and submit it to a supervisor for approval prior to making travel arrangements. The approved Travel Authorization form should then be submitted to the Finance Unit in the staff member's Office.

#### **1.1.17 Travel Cash Advances**

Cash advances for travel may be requested through the Travel Authorization form, which should be submitted to the Administration and Finance Unit of the staff member's Office. For example, HQ travellers should submit advance requests to HQ and avoid taking advances in the field. However, should an emergency advance be required in the field, the issuing field Office should notify the Administration and Finance Unit of the staff member's Office.

When requesting a cash advance, staff should consider cash needs for a trip carefully and request an amount that includes all anticipated costs such as hotel, daily subsistence and other expenses.

Travel advances are transferred to the staff member's bank account and he/she is responsible for withdrawing cash and exchanging it into the appropriate currency.

A travel advance should be cleared after the trip by deducting the amount from the final expenses claimed. This should be done within five working days from the end of a trip. No new travel advances may be issued to staff with previous outstanding advances.

#### **1.1.18 4.6.5 International Travel by Air**

All air travel should be planned to achieve the purpose of the trip in the most practical manner possible. Consideration must be given to both cost and convenience. Travel should be planned as far in advance as possible to take advantage of the lowest airfares and most direct route.

#### **1.1.19 4.6.6 Purchase of Airline Tickets**

All arrangements for air travel – particularly the purchase of tickets – should be made through travel agencies designated by ZZF. This is done to maximize cost efficiency and to ensure that policies, procedures and donor regulations are followed.

Each staff member is responsible for coordinating his/her own travel. If assistance is needed with travel arrangements for others (e.g., interviewees, visitors, field personnel or Board of trustees members), a member of the administration staff may be available to help upon request

#### **1.1.20 Class of Service**

All air travel should be in economy class. Any upgrades will be at the traveller's expense. In exceptional cases business class travel may be approved by the DG under the following circumstances:

- When economy tickets are not available and the passenger's travel is restricted by date, time of flight, or carrier
- If travel involves very frequent long distance travel (flights of 9 hours or more) and recovery time is unavailable

Consideration must also be given to the availability of funding and specific donor regulations, as many donors do not permit business class travel.

#### **1.1.21 Routing**

Travelers should use the most direct routing available at the time travel is required. Personal stopovers may be allowed with the advance approval of a supervisor. However, any additional costs resulting from stopovers must be paid by the staff member. This difference must be documented by a quote showing the cost of the most direct routing.

#### **1.1.22 Preferred Carriers**

The least expensive carrier that meets the traveler's requirements and applicable regulations should be used, unless safety considerations warrant otherwise. Staff may not select carriers based on personal preference unless they are willing to pay the cost difference.

#### **1.1.23 Local Travel within Programme Areas**

Offices are required to have in place a set of policies for local travel. Local travel is defined as travel within a country or regional programme area where a ZZF office is located. In cases where Programmes require travel across international borders, such as cross-border Programmes or where a regional or support office is located in a neighboring country, regional travel may be included within the local travel policy. In these cases, however, ZZF and donor policies governing international air travel should be followed. Local travel policies should also include policies governing local DSA rates.

#### **1.1.24 Travel Expense Reports**

Expense Report is used to claim reimbursable travel expenses and to clear cash advances. An expense report must be submitted after every trip. Expense Reports should:

- be submitted within five working days after a trip
- include any justification for unique or special claims
- identify programmes to be charged per the Travel Authorization
- be signed by the staff member
- be approved and signed by a supervisor
- have the corresponding travel authorization attached
- be submitted to the same Office that issued the travel authorization

#### ***Claiming Expenses***

All expenses listed on the Expense Report must be accompanied by corresponding receipts or invoices. Receipts are required for all expenses not covered by the Daily Subsistence Allowance. To facilitate verification, receipts should be numbered to correspond to the report and attached in the same order that they are listed on the report. Small receipts should be taped, not stapled, to a blank sheet of paper without overlapping.



Transactions in foreign currency must show the exchange rate used to convert to US dollars. The exchange rate should be documented either by a bank slip or a printout from the following internet conversion site: ***www.oanda.com***.

### ***Clearing Travel Advances***

Travel advances should be cleared through the same Office that issued the advance and travel authorization. For example, HQ staff should clear all advances at HQ and field-based staff should clear all advances with their respective Office. In exceptional cases where field-based staff receives a travel advance from HQ, they should submit the expense report in which they clear the advance to HQ, and a copy of the expense report should be forwarded to the Administration and Finance Unit of the staff member's Office.

If the final amount of expenses claimed is less than the advance (e.g., the trip duration is unexpectedly cut short) the staff member must return any balance. Such returns should be done by bank transfer to the ZZF bank account in the same currency in which the advance was taken. If in this process there is a loss due to exchange rates, ZZF will bear the loss.

### **1.1.25 Reimbursable Expenses**

The following expenses are reimbursable travel expenses. Travellers may claim reimbursement by submitting an Expense Report. Original receipts are required in all cases except Daily Subsistence Allowance claims.

### ***Ground Transportation***

For travel to a field office, ground transportation is generally arranged by the field office. Should a staff member need to make his/her own arrangements, inexpensive forms of ground transportation should be used (e.g. train, bus). The expense of using a taxi is reimbursable only under one more of the following circumstances:

- The cost is reasonable
- The time savings is significant

- The ground transport occurs at the end of a long period of travel
- If personal security related to bus or shuttle use is an issue

Unless there are security concerns, train travel should be in economy class. Travel between home and airport and the cost of transportation (e.g. taxi) to ZZF-related meetings will be reimbursed based on actual cost. Car hire (rental) where available and appropriate is reimbursable based on actual cost.

### ***Daily Subsistence Allowance***

A Daily Subsistence Allowance (DSA) is payable for each night spent on assignment. DSA rates vary by location and specify a set allowance that covers the following:

- ***All meals*** — if, however, some meals are provided during the trip (e.g. hosted by partner/donor, etc.), the DSA rate will be reduced by 25% for each meal provided (lunch and/or dinner). If all meals are provided (e.g., while attending a conference), only 50% of the DSA rate may be claimed for incidental expenses.
- ***Laundry expenses*** Accommodation will be reimbursed based on actual cost, up to the Maximum Hotel Daily Allowance in the DSA schedule. Amounts exceeding this allowance will be reimbursed only if justified and approved in writing by a supervisor. For staff members who travel on day business trips without an overnight stay, reimbursement will be based on actual costs incurred during the day.

Field offices should develop DSA rates as an alternative to the reimbursement of actual expenses for staff that require regular travel between project sites within a country or regional Programme area. DSA rates should approximate actual expenses, be reasonable for the location and be paid in local currency only. Policies governing local DSA payments should be documented in the local travel policy and should apply to both expatriate and national staff. Local DSA rates may not exceed those in the main ZZF DSA table.

The DSA table of rates is maintained by the Administration Support Unit and is reviewed and updated annually, if needed.

***Medical Expenses***

Medical expenses related specifically to travel, such as vaccinations and other preventative medications, will be reimbursed based on actual cost.

***Travel Documents***

All expenses related to visas, including fees, travel to and from the embassy, passport pictures, as well as any other expenses related to travel documents, will be reimbursed based on actual cost.

***Telephone***

Telephone calls for ZZF business should be made from ZZF office phones or pay phones where possible. Making international calls from hotel rooms should be avoided due to significant surcharges. Staff are encouraged to obtain a local phone chip (SIM card) for their mobile phones while in country to reduce telephone costs. All business calls are reimbursable based on actual cost. Personal calls are not reimbursable.

The cost of all personal calls made on ZZF mobile phones must be reimbursed to ZZF on a monthly basis.

***Loss or Theft of Personal Property***

Loss or theft of personal property, including cash, is not reimbursable. Loss, theft or damage of ZZF property should be reported immediately to the Administration Office.

***Other Travel Expenses***

Any other business-related expenses incurred during travel that are not specifically listed here may also be submitted for reimbursement.

#### **1.1.26 Security Briefing**

It is very important that security briefings be taken seriously and that staff are aware of potential risks. It is the responsibility of each staff member to obtain a security briefing for the country to which they are travelling. The security briefing should be obtained from the Programme Officer responsible for the project prior to the trip and should also be supplemented by the security briefing from the local team upon arrival in the country.

Country Safety and Security briefing notes are also posted on the Intranet. They should be consulted for general background and practical information on the country. All staff, especially those that travel on ZZF business, should also read and be familiar with 's Safety and Security Policy also found on the Intranet.

As a supplemental general resource, the following UK and French government web sites can also be useful for travel and security information: <http://www.fco.gov.uk/en/travelling-and-living-overseas/travel-advice-by-country/> [http://www.diplomatie.gouv.fr/fr/conseils-aux-voyageurs\\_909/index.html](http://www.diplomatie.gouv.fr/fr/conseils-aux-voyageurs_909/index.html)

In addition, the following web sites may be consulted for health advice for travellers:

<http://wwwn.cdc.gov/travel>

<http://wwwn.cdc.gov/travel/contentYellowBook.aspx>

This site allows a traveller to search in the CDC Health Information International Travel 'yellow book'.

#### **4.7 Record Keeping**

This section is intended to cover financial and administrative record keeping and documentation only.

### **1.1.27 Responsibility for Record Keeping**

Each Office is responsible for ensuring that financial and administrative records are complete and properly organized, maintained, and stored. Records must be readily available for inspection upon request.

Parties who authorize transactions are responsible for ensuring that supporting documentation is complete and well organized. An independent reviewer should be able to easily understand the nature of the transaction as well as why and how it was made.

### **1.1.28 Safeguarding Records**

Records serve as basic evidence that a transaction took place and that ZZF and donor policies were followed. Missing or inadequate records can result in unfavorable audit findings, costly disallowances, and a loss of trust from donors.

Each Office is therefore responsible for safeguarding financial records from loss or damage. When not in use, files should be stored properly and locked away whenever possible. Destroying records is strictly prohibited, except after a required retention period of **ten** years.

#### ***Original Documents***

Offices should be consistent in the filing and storage of original documents. Original financial records should always be maintained by the Finance Unit. If auditors or donors require original documents, copies should be made to replace the originals before surrendering the documents. A notation should be made on the copy to document the date of removal, to whom the documents were given and location of the originals. Only the DG can authorize the release of originals, regardless of whether it is for an auditor or a donor.

### ***Filing Systems***

Offices are responsible for developing appropriate filing systems. Filing systems should be simple, logical and applied consistently. Files should be maintained in an organized manner that ensures retention and allows for easy retrieval. Documents should be referenced in a manner that allows transactions to be easily traced from financial reports to the original source documents and vice versa.

Accounting records should be organized by fiscal year and month. Depending on the type of documentation, filing may be organized by document reference number, general ledger account number or general ledger entry number.

### ***Current and Archived Records***

Filing systems should be differentiated by current records (office) and noncurrent records (archive). Current records are those that may need to be referenced in the normal course of business. Noncurrent records are those for ZZF.

## **5.0 CASH AND BANK**

### **5.1 Funds**

ZZF may only accept funds for purposes that are approved by the Board of Director. All funds received will be placed in approved ZZF bank accounts. Funds held by ZZF, which are not immediately required for day to day use, will be held in interest-bearing accounts (except for restricted funds whose donors don't approve so).

### **5.2 Currency Losses or Gains**

ZZF maintains its accounts in US dollars. From time to time, ZZF may enter into donor contracts in other currencies and variations in exchange rates will be experienced. All donations will be converted at the rate that is current at the time of transfer.

ZZF will not engage in currency speculation in an attempt to make exchange gains or avoid exchange losses. Funds are normally held in US dollars unless they are received in another currency and expenditure is also likely to be in that currency.

Losses or gains in any project or programme as a direct result of exchange rate fluctuations remain in the project or programme and are managed accordingly. ZZF does not have a central facility for covering exchange rate shortfalls. All currency exchange gain/loss is recorded in the Exchange Gain/Loss account.

### **5.3 Losses**

Any items (such as cash, monies held in the bank or items of supplies recorded in ZZF accounts and/or inventories) which have disappeared or lost their value, other than by fair wear and tear, shall be treated as a loss.

Any loss shall be reported in writing to the DG. Any ZZF staff member found responsible for a loss through negligence or deliberate act shall be subject to disciplinary action in accordance with the HR policy.

### **5.4 Banking Arrangements**

Bank Accounts may only be opened with reputable banks that have a strong credit rating and offer the required services (e.g., international transfers) at competitive fee levels.

#### **1.1.29 Opening New Bank Accounts**

The number of bank accounts should be kept to a minimum for efficiency and control. Separate bank accounts are not required for restricted grant funds unless specifically required by the donor.

Opening any new bank account requires DG approval. All bank accounts must be in the name of ZZF and included in ZZF's financial accounts.

#### **1.1.30 Operation of Bank Accounts**

There should be at least 3 bank account signatories for each Office. Two signatories are required to sign Cheque or authorize other bank transactions (e.g., wire transfers).

#### **1.1.31 Cheque books**

The accountant is responsible for keeping un-used cheque books in a locked, secure place and for preparing Cheque after confirming the supporting documentation.

#### **1.1.32 Bank Payment**

The Finance & Admin Manager ensures that liabilities are correctly posted into the ledger and that payments to creditors are made in accordance with the terms of credit.

On a monthly basis, the Financial Accountant shall prepare a cash outflow statement for distribution to the Finance & Admin Manager and General Director. The statement will indicate all the anticipated payments for the month and, once approved by the Finance & Admin Manager forms the basis for Cheque preparation in that month.

The accountant receives and stamp dates all incoming invoices records them into the Invoices Register. He thereafter matches them to Delivery note, GRN, Purchase Requisition, LPO/Contract and any other relevant documentation in support of the purchase.



He verifies such support documentation for completeness, accuracy and consistence and that all such support documentation had been procedurally approved and authorized by the vote holders before submitting the batch of documents to the FAM for review and further processing.

Cheques are prepared, together with their supporting documents shall be submitted to the bank signatories support documents initialising and approval and signing.

The signed cheques and all the accompanying documentation shall be returned to the receptionist for delivery of the cheques. The payees or their representatives shall sign and indicate their particulars and contacts on the delivery book when collecting the cheques.

If a cheque needs to be voided, the accountant shall write or stamp it 'VOID' and sign across the front of the cheque. All voided cheques shall be filed numerically.

Duly approved Cheques and/or Bank transfers shall be the only basis for posting payments into the cash book. The accountant shall post such payments.

### **5.5 Bank Reconciliations**

The accountant is responsible for ensuring that banks statements are available within 7 days after the end of each month.

The accountant is also responsible for preparing bank reconciliations by the 10th of each month. Any discrepancies between the accounting records and bank statements, or long outstanding items which cannot be reconciled, must be brought to the attention of the DG and corrective actions taken without delay.

All dishonored cheques shall be reported to the Finance & Admin Manager and immediate action taken to ensure that the drawer rectifies the irregularities. Appropriate reversing entries shall be posted in the books with the approval of the Finance & Admin Manager.

Presented cheques, which are six months old, shall be reversed in the books and a stop payment order issued to the bank by the Finance & Admin Manager. The payee shall be issued with a fresh cheque, should the old one be confirmed lost in transit or misplaced.

After the Finance & Admin Manager has approved the bank reconciliations and all adjusting entries, items and financial events requiring the attention of the Finance & Admin Manager shall be reported on a “Financial Accountant exception report.

## **5.6 Cash Management**

ZZF Offices must keep payments in cash to a minimum. Most large payments must be made by cheque or bank transfer. Cash payments exceeding \$250 USD must be authorized by the DG.

### **1.1.33 Petty Cash**

Petty cash accounts are managed on an imprest system. Rules and procedures are as follows:

- All petty cash records should be kept up-to-date at all time. Therefore, the cash office is open for over-the-counter transactions only between 9AM - 11AM in the morning and 2PM – 3PM in the afternoon. Processed cash payments are numbered by the Cashier, compiled and posted to the correct accounts in the financial system.
- The DG establishes maximum limits for petty cash at each field offices and the responsible officers should ensure that these limits are met at all times. Petty Cash should not exceed \$250 USD except in special circumstances as approved by the DG.
- Petty cash payments up to \$100 USD and of a normal, recurring nature may be made by the cashier without prior approval of the responsible officer. Payments above this amount require approval of the responsible officer.
- Petty cash will be replenished from the appropriate ZZF bank account when the amount falls below the agreed minimum. Each time that petty cash is replenished the responsible officer should check the petty cash book and countersign petty cash vouchers. The responsible officer should also check the cash on hand from time to time and document this check by signing the petty cash book.
- Cash count and imprest reconciliation must be carried out at least once a month by a person other than the cash custodian (Cashier). During the cash count, the workings must

reconcile the imprest and in addition all cash receipts agreed to the duplicate receipts right back to the last banking. The Admin and Finance manager may make a surprise cash count at any time. The cash count should include the reconciliation of the physical cash balance to the approved imprest amount.

- Granting of temporary loans from petty cash, however small, is not permitted.

## **6.0 AUDIT**

### **6.1 Statutory audit**

ZZF financial year is 1<sup>st</sup> January – 31<sup>st</sup>December. The General Director will ensure that the auditors appointed and approved by the Board of trustees undertake their annual audit as soon as possible after the close of the financial year. The General Director will work closely with ZZF financial staff and the external auditors to properly prepare for and execute the audit thereby minimizing the audit expense.

#### **Procedures:**

- Annual statutory audits shall be performed by a qualified independent external public auditor with extensive experience in donor related audits.
- The External public auditor shall be accountable to the Audit Committee of the Board.
- The financial statements, together with the supporting schedules, shall be ready for audit within two months after year-end, giving the auditor adequate time in which to conduct and complete the audit.
- Any internal control issues that the independent auditor may come across during their statutory audits shall be communicated to the Board by way of a management letter by March 31 of the year following the year of audit.
- Upon appointment by the Board, the auditor shall sign a “Letter of Engagement” acknowledging appointment and the scope of work and terms of the engagement.
- The Directors shall write a “Letter of Representation” to the auditor at the end of the audit declaring that all necessary information was presented to them for audit purposes.
- The auditor shall produce a draft audit report and present it to the Finance & Admin Manager who shall respond to the issues raised, in consultation with the Executive Director, before a final report is produced.
- The auditor shall submit audited financial statements to the Board through the General Director for approval by March 31<sup>st</sup> of the year following the year of audit.

- ZZF General Director shall ensure that audit observations and recommendations are implemented, or otherwise disposed of before the next audit.

The preparation and presentation of financial statements shall be the responsibility of ZZF General Director/management. The auditor shall be responsible for expressing an independent opinion on the statements based on their audit, i.e. whether they show a true and fair view of the state of affairs of ZZF as at that particular date.

## **6.2 Donor Audits**

Some institutional donors require audits of projects they have funded. It is ZZF policy to cooperate fully with these donor audits, whether conducted locally at the field or at Headquarters. Any non-compliance issues that arise from these audits will be addressed between the Admin and finance Manager and the appropriate party.

## **7.0 PROCUREMENT**

ZZF is committed to implementing and maintaining the highest standards of efficiency, integrity and transparency in the purchase of goods and services. The following procurement procedures outline ZZF standards and donor requirements associated with these expenses. These procedures will also ensure that proper documentation is provided for purchases. For more details on this, refer to the procurement policy.

### **7.1 Donor-Specific Procurement Regulations**

When required by the donor, specific procurement rules and regulations must be followed as a supplement to ZZF policies. In cases where donor requirements are more lenient than the thresholds outlined in this manual, ZZF policies are to be followed. It is the responsibility of heads of unit, Programme Officers and the Finance Officer, in consultation with the General Director or Deputy Director General, to research any specific requirements as new grants are signed and to inform relevant staff members of the requirements.

### **7.2 Conflict of Interest**

When making purchase or other business decisions, conflict of interest must be strictly avoided. A conflict of interest refers to a situation where an ZZF staff member, or his/her immediate family (i.e. spouse, parents, children, siblings, spouse's parents) has a personal, professional or business interest that conflicts with, or may give the appearance of conflicting with, the best interests of ZZF.

Conflict of interest occurs when a staff member, officer, or agent of ZZF participates in the selection of purchases or contracts in which immediate family or partners thereof have a financial interest. Conflict of interest may occur when, through a direct or indirect relationship with ZZF or any of its staff members, an individual:

- has an unfair advantage in competing for a procurement

- may be unable to provide impartial advice or assistance in a procurement process he/she is involved in

To avoid conflict of interest, staff shall not knowingly allow ZZF to enter into a contract, purchase agreement or service negotiation with any person, firm or organization that results in a real or perceived conflict of interest as indicated above, nor be involved in any procurement processes in which they have relationships, real or perceived, with competing suppliers. Staff members are required to seek written authorization from the DG or DDG where they may be perceived as having a conflict of interest.

Additionally, no staff shall receive gifts, commissions or kickbacks from any person, firm or organization with whom ZZF or its affiliates has entered into a contract, purchase agreement or service negotiation.

No gifts or money should be accepted when contracting business for ZZF. The only exception is gifts of an inexpensive or seasonal nature such as business diaries, calendars, pens, or business meals.

All ZZF staff are required to disclose to the DG or DDG any conflict of interest situation in which they may be involved.

Staff, officers, and agents of ZZF who knowingly violate this policy will be subject to such disciplinary action as deemed appropriate by the DG, including immediate dismissal.

### **7.3 Payments**

Unless advance payment was required, payment for goods or services will be made only when all goods have been received and inspected.

#### **1.1.34 Payment Procedures**

All payments must be supported by a payment authorization voucher. These vouchers will state date of payment, amount, purpose, account line, project reference number, bank or cash reference number, cheque number, approval signature, authority of General Director if necessary, and signature of payee. Alternatively, the same information and approval can be

entered on the invoice. The originals of supporting documentation must be attached to and filed with the payment authorization voucher.

The following documentation must be in the possession of the Finance Department before payment will be made:

- Goods or Service Purchase Request form or an email authorising the purchase
- Quotation Analysis form with a minimum of three written quotes attached
- Approved PO form (for goods of \$1,000 USD or more) with delivery and inspection verified by signature
- Delivery notes or any other shipment documents such as waybills or packing lists
- Supplier's invoice (original)
- Payment authorization voucher

#### **1.1.35 Closing Purchase Orders**

POs are closed when the goods or services have been received and full payment has been made. Once completed the PO is marked "CLOSED" or stamped "PAID" and attached to the relevant payment voucher.

To prevent possible duplicate payments, it is imperative that all paid invoices are stamped "PAID."

#### **7.4 Bulk Office Supplies or Stationary**

In the case of bulk office supplies and stationary purchases, one supplier should be selected based on prices for commonly used supplies, then used throughout the year. The initial supplier selection should also be done through the competitive bidding process and price comparison, and the selection should be documented. More than one supplier may be used but the rationale for this approach should also be documented. Reassessments are recommended semi-annually.



## **7.5 Orders for Goods and Equipment**

All equipment orders over \$500 USD must be made through the Purchase Request Forms. All requests must be signed off by the authorized manager.

Computer purchases should be coordinated with the IT Officer. This will ensure that purchases of equipment and software are compatible throughout ZZF.

## **7.6 Capital Expenditure**

A capital asset is defined as an item with a value exceeding \$1,000 USD and a useful life over one year. All capital assets must be included in the asset register. Procurement of capital assets follows the same procedure as items valued at \$1,000 USD or above (i.e. PR, request for quotation, quotation analysis, purchase order, etc.). Some donors have specific rules and regulations regarding capital assets (e.g. Source & Origin rules) and special attention must be given to certain classes of assets (e.g., vehicles, generators). Donor agreements should be reviewed carefully prior to any capital purchases.

Special value items, such as computers, cameras, cell phones, while not capital assets, should also be included and tracked in the asset register. The value items should be tracked in a separate sheet, separate from the capital asset register.

### **7.6.1 Capital Expenditure – Procurement with Project Funds**

When assets are purchased as part of project activities financed by donors, these items are considered to be a cost of the project. Additionally, while the assets will generally be legally titled in the name of ZZF, the donor frequently retains control over the disposition of these assets until completion of the project. At that point, in discussion with the donor, the assets may be retained by ZZF, or ZZf may be directed to transfer ownership to another organization of donor's choice.

Accordingly, the value of such items should not become part of ZZF's net assets until that disposition has become certain and is documented in writing.

The accounting consequences of the above are that the value of project procured assets will be charged to the project as an expense and not recorded as an asset on the Balance Sheet. There

is no attempt to estimate the useful life of the asset or to recognize depreciation expense. The fact that the donor agreed to fund the full purchase of the equipment determines that it is immediately expensed.

### **7.6.2 Recording Assets**

Fixed assets (equipment or other assets with a value of over \$1,000 USD), must be disclosed on the balance sheet at their original cost or, in the case of donated assets, at local market value at the date of acquisition. Exceptions may arise when donor contracts specify that assets must be expensed at the time of purchase.

All assets will be listed in the Asset Register upon receipt. The Asset Register is divided into the following Sections: Land and Buildings, Motor Vehicles, Office Equipment and Furniture and Fittings.

Office equipment or special value items costing \$1,000 USD should be listed in the Assets Register.

Assets should be marked with "ZZF" and their identifying asset code number. An annual inventory of assets will be arranged by the respective Finance Officers and a report prepared confirming the physical existence and condition of these assets.

ZZF will depreciate assets in the accounts as follows:

Office furniture -7 years

Office equipment - 4 years

Computer hardware and software-3 years

Vehicles 5 years

Buildings - Determined on a case by case basis, following local regulations

### **7.6.3 Disposal of assets**

The DDG may authorize disposal and write-off of assets upon the recommendation of the DG. This is allowed in cases where assets are damaged, obsolete or no longer required and where

the disposal does not conflict with any conditions imposed by the donor who provided the funding for the asset.

The disposal of an asset previously recorded in the Fixed Assets Register should be noted. Accounting entries should also be made to remove it from the balance sheet and to record any loss or gain on disposal (calculated as the difference between the disposal value and net book value). For assets purchased with project restricted funding, any gain or loss should be recorded against the relevant project.

Disposal of assets in case of dissolution of ZZF shall be decided by the Board of trustees in accordance with ZZF's Statutes and specific donor rules and regulations with which the assets have been purchased, and documented accordingly.

## **8.0 FINANCIAL REPORT**

Accurate and comprehensive financial reports are necessary tools for sound financial management; such reports are therefore required by the management as a basis for sound decision-making as well as an aid to planning and control of activities ZZF. ZZF shall prepare all its reports on timely and in a transparent manner to ensure accuracy and acceptability by all stakeholders.

To identify which documents will be produced by the Finance Department on a regular basis, the frequency of these documents, and to ensure that the Management Team members have relevant data for decision making.

### **8.1 Monthly Financial Reports**

- At the end of each month it is necessary to produce an income and expenditure statement.
- Income will include grants, which consists of the amount of project funds received in accordance with the project contract. Thus grant income for a given period should ideally be equal to project expenditure for that period (any variance should be explained). This means that where there is no other income and all expenditure is funded, ZZF's income will be exactly equal to its expenditure with neither a surplus nor a loss being realized.
- Expenditure from each project for the month can easily be extracted from the project ledgers. The entries to be made are:
  - Debit: Expense (income and expenditure account) with project and Credit: Grant income (donor x) with the same amount as the expenditure.
- The accountant will prepare on a monthly basis, an income and expenditure report comprising the following:
  - A summary of income and expenditure
  - Analysis of expenditure by donor
  - A detailed statement of income and expenditure

## **8.2 Quarterly Financial Reports**

- Quarterly financial reports shall be furnished by ZZF for management control purposes to compare the activities accomplished and expenses incurred against the plan and take corrective action if there is any discrepancy.
- The report shall reveal all financial transactions and changes in the fund balance for the period covered by the report. Such Financial reports shall also be produced on the basis of management or BoT request.

## **8.3 Annual Financial Report**

- ZZF shall make an annual financial report of its affairs to the board at the General Assembly with the audited financial statements.
- The executive committee and other responsible officers ZZF shall sign such reports as an indication to the correctness in all aspects. Copy of the annual report shall be distributed to the board and all other interested parties, and donors and sponsors of the organization within 60 days from the signing of the reports.
- ZZF shall produce the following financial reports:
  - Balance sheet
  - Income and expenditure statement
  - Income and expenditure forecasts
  - Cash flow statements

## **9.0 FRAUD AND CORRUPTION**

### **9.1 Introduction**

ZZF plays a significant role and effort to combat fraud and corruption. Any act of fraud and corruption in ZZF activities depletes funds, assets and other resources necessary to fulfill ZZF mandate. Fraudulent and corrupt practices can also seriously damage ZZF reputation and diminish donors' trust in its ability to deliver results in an accountable and transparent manner. Furthermore, it may affect staff and personnel effectiveness, motivation and morale, and impact on the Organization's ability to attract and retain a talented work force.

### **9.2 Scope and application**

ZZF has zero tolerance for fraud and corruption, meaning that ZZF staff members, non-staff personnel, vendors, implementing partners and responsible parties are not to engage in fraud or corruption. All incidents of fraud and corruption are to be reported, and will be assessed and, as appropriate, investigated in accordance with the Investigation Guidelines.

ZZF is committed to preventing, identifying and addressing all acts of fraud and corruption against ZZF through raising awareness of fraud risks, implementing controls aimed at preventing and detecting fraud and corruption, and enforcing this Policy. This Policy aims to prevent, detect and address acts of fraud and corruption involving:

- Staff members holding a ZZF letter of appointment.
- Non-staff personnel, including Service Contract holders, Individual Contractors, Volunteers and interns.

- Vendors, including actual or potential contractors of civil works and suppliers of goods and services and

### **9.3 Definition of fraud and corruption**

The definition of fraud and corruption varies among countries and jurisdictions, and the term is commonly used to describe a wide variety of dishonest practices. The following definitions shall apply in the context of this Policy:

Fraud is a knowing misrepresentation of the truth or a concealment of a material fact to induce another to act to his or her detriment. Corruption is the act of doing something with intent to give an advantage inappropriate with official duties to obtain a benefit, to harm or to influence improperly the actions of another party.

Actions taken to instigate, aid, abet, attempt, conspire or cooperate in a fraudulent or corrupt act, also constitute fraud or corruption.

Examples of fraud and corruption include, but are not limited to, the following actions:

- Forging documents, preparing false entries in ZZF systems or making false statements to obtain a financial or other benefit for oneself or another/others.
- Collusion or other anti-competitive scheme between suppliers during a procurement process.
- Providing information in relation to a medical insurance claim or another entitlement that the claimant knows to be false.
- Forging the signature of ZZF staff member or forging a document purporting to be from ZZF to induce a party outside ZZF to act.

- Using another’s IT identity or password, or creating false identities/passwords, without consent or authority to manipulate ZZF processes or cause the approval or denial of actions.
- Accepting hospitality such as meals or entertainment from a vendor.
- Misrepresenting ZZF employment status to obtain a benefit from a government or private sector entity.
- Failing to disclose a financial or familial interest in a business or outside party while participating in the award/management of a contract to the benefit of that business or outside party.
- Processing the cost of personal travel as part of an official travel.
- Making misrepresentations, including educational credentials or professional qualifications, on a personal history form in the context of a job application.
- Falsifying documents, making false statements, preparing false entries in ZZF systems or other deceptive acts to the detriment of those someone seeks to disfavor, or to discredit a person, programme or the Organization.

## **9.4 Fraud prevention measures**

### **9.4.1 Fraud awareness**

Staff members, non-staff personnel, vendors, implementing partners and responsible parties must be aware of their responsibility to prevent fraud and corruption. In this regard, managers are to raise awareness of this Policy, and reiterate the duty of all staff members to report instances of fraud and corruption, as required by the rules. Managers are also required to make non-staff personnel, vendors and responsible parties contracted/engaged by their respective offices aware of this Policy.

### **9.4.2 Building fraud prevention into programme and project design**

When developing a new programme or project, it is important to ensure that fraud risks are fully considered in the programme/project design and processes. This is especially important for high risk programmes/projects, such as those that are complex or operate in high risk environments. These programme/project risk logs shall be communicated to relevant



stakeholders, including donors and responsible parties, together with an assessment of the extent to which risks can be mitigated.

Programme and Project Managers are responsible for ensuring that the risk of fraud and corruption is identified during the programme/project design phase. They are to consider how easily fraudulent acts might occur and be replicated in the day-to-day operations. They are also to evaluate their impact, and the effectiveness of the measures taken to mitigate risks, including systemic monitoring actions. Informed decisions can then be made on additional mitigating actions.

#### **9.4.3 Management of the risk of fraud and corruption**

Managers shall identify and assess the risks in their programme or project areas, including the risk of fraud and corruption, and apply mitigating measures, taking due account of the level of risk involved. Because it is impossible to eliminate all risks, good risk management requires a sound balance of the following aspects: assessment, mitigation, transfer or acceptance of risks. These risks shall be communicated to relevant stakeholders, together with an assessment of the extent to which risks can be mitigated.

#### **9.4.4 Fraud risk assessment**

Where a high risk of fraud has been identified within the general risk assessment of programmes/projects, an additional and specific fraud risk assessment may be necessary. This in-depth assessment should be used to better identify fraud risks and develop effective measures that address these high risks. The aim is to help management to identify and evaluate areas of the programme/project that are most susceptible to fraud, and prioritise where ZZF should focus its resources for fraud prevention and mitigation.

These fraud prevention and mitigation measures should be monitored for effectiveness over time, and the fraud risk assessment process may be repeated periodically utilizing lessons

learned, especially for longer-duration programmes/projects or where material changes are made to the design of the programme/project during its implementation.

#### **9.4.5 Internal control system**

A strong internal control system, where policies and procedures are enforced, internal controls are appropriately implemented, and staff members, non-staff personnel, vendors, implementing partners and responsible parties are informed about fraud and corruption and its consequences, can curtail fraud and corruption.

Where managers have identified and assessed the risk of fraud and corruption, these risks can be managed by establishing practices and controls to mitigate the risks, by accepting the risks — but monitoring actual exposure — or by designing ongoing or specific fraud evaluation procedures to deal with individual fraud risks.

#### **9.4.6 Integrity and other best practices**

Integrity is a paramount consideration in the recruitment of staff members and the contracting of non-staff personnel. In this context, ZZF HR department should ensure that the recruiting/contracting individuals meet the standards of conduct expected of staff members and non-staff personnel. This can be achieved, for instance, by using specific interview assessment tools for integrity, professional experience and academic checks.

Additionally, with respect to the hiring staff members, the HR department has the duty to enquire about the candidates' possible existence of family relationships and to ensure that the job candidates are aware of and declare any family or spousal relationships, as required by ZZF policy on the Recruitment of Family Members, and Conflicts of Interest.

ZZF requires all of its vendors to be qualified, as well as be eligible. ZZF shall not award a contract to any vendor that has been debarred by ZZF or any other agency. Awarding a contract

to an ineligible vendor may only occur when a vendor has been rehabilitated or when the ZZF Vendor Review Committee (VRC) considers that a waiver or exception should be granted in consideration of the specific circumstances surrounding the procurement action.

#### **9.4.7 Application and adherence to standards and codes of conduct**

Standards and codes of conduct have been established for staff members and non-staff personnel. In addition, contracts issued to non-staff personnel and vendors stipulate requirements with respect to such non-staff personnel's and vendors' actions in the context of their contractual relationship with ZZF. The observance of such standards of conduct and contractual obligations deters fraud and encourages the highest standards of professional behaviour.

### **9.5 Roles and responsibilities**

All ZZF staff members and non-staff personnel have critical roles and responsibilities in ensuring that fraud is prevented, detected and dealt with promptly. They are responsible for safeguarding resources entrusted to ZZF and for upholding and protecting its reputation. Similarly, all ZZF vendors, implementing partners and responsible parties shall be held to the highest ethical standards, and should report to ZZF any acts of fraud and corruption.

#### **9.5.1 Staff Members and Non-staff Personnel**

Staff members and non-staff personnel must understand their roles and responsibilities, and how their job functions and procedures are designed to manage fraud risks, and how non-compliance may create an opportunity for fraud to occur or go undetected. Staff members have the obligation to complete all mandatory ZZF trainings, and to keep themselves informed of new policies, and report immediately any evidence of practices that indicate fraud or corruption may have occurred.

Fraud and corruption, if committed by a staff member, constitutes misconduct for which a disciplinary measure may be imposed, including dismissal. Similarly, fraud and corruption by non-staff personnel is not tolerated in accordance with ZZF zero tolerance policy. Contracts must be terminated where non-staff personnel's involvement in prescribed practices is established. In both instances, the allegations of fraud and corruption may be referred to national authorities for criminal investigation and prosecution of those involved.

Additionally, managers are expected to act as role models and through their actions and behaviours set the tone for the rest of the Organization. They should foster a culture of zero tolerance for fraud and corruption, and ensure that any practices not aligned with this Policy are dealt with expeditiously. They are required to go beyond compliance with relevant corporate policies and procedures and to take proactive steps to prevent and identify potential fraud and corruption. In particular, managers are expected to:

- Perform risk assessments to identify potential fraud risks to which their assets, programmes, activities, and interests are exposed.
- Assess the identified risks, select risk-avoidance options, design and implement cost effective prevention, mitigation and control measures.
- Establish/implement measures to prevent the recurrence of fraud.
- Monitor and supervise the performance, working methods and outputs of their staff to ensure that staff is conducting themselves in ways that meet the most ethical and professional standards.

Managers who fail to take appropriate action or who tolerate or condone fraudulent activities or corruption will be held accountable.

### **9.5.2 Vendors**

Actual and potential ZZF vendors and their employees, personnel and agents, have the duty to interact honestly and with integrity in the provision of goods and services to ZZF, and to report immediately allegations of fraud and corruption to ZZF. Vendors shall be encouraged to

establish robust policies and procedures to combat fraud and corrupt practices, and are to cooperate with ZZF auditors and investigators.

When allegations concerning possible involvement in fraud or corruption are deemed substantiated, ZZF shall take any administrative actions available to it, including but not limited to Vendor Sanctions Procedures, and shall seek to recover fully any financial loss. In addition, ZZF may terminate contracts, and may refer appropriate cases to national authorities for criminal investigation and prosecution, when applicable.

ZZF has a zero tolerance policy towards the acceptance of any gift or any offer of hospitality from vendors. ZZF staff will not accept any invitations to sporting or cultural events, offers of holidays or other recreational trips, transportation, or invitations to lunches or dinners. ZZF vendors shall not offer any benefit such as free goods or services, employment or sales opportunity to ZZF staff member in order to facilitate the suppliers' business with ZZF.

Post-employment restrictions apply to ZZF staff in service and former ZZF staff members who participated in the procurement process, if such persons had prior professional dealings with suppliers. ZZF suppliers are to refrain from offering employment to any such person for a period of at least one year following separation from service.

### **9.5.3 The Vendor Review Committee**

Vendors are subject to the Vendor Review Committee (VRC). The VRC is an internal body tasked with making recommendations on vendor sanctions, including with respect to vendors' continued eligibility to do business with ZZF. If the VRC finds that a vendor has been involved in prescribed practices, it can recommend sanctions, including debarment. Cases are referred to the VRC by OAI.

## **9.6 Reporting fraud**

UNDP has established a 'Hotline' to ensure that persons can report fraud free of charge, using different options. Anyone with information regarding fraud or other corrupt practices against ZZF or involving ZZF staff, non-staff personnel, vendors and responsible parties, is strongly encouraged to report this information through the Investigations Hotline.

### **9.6.1 Details that should be included in a report of fraud**

In order for investigations to be successful, complaints should be as specific as possible. To the extent possible, they should include details such as:

- The type of alleged wrongdoings.
- When, where and how the wrongdoings occurred.
- Who was involved and may have knowledge of the matters being reported. Relevant documents or other evidence should be included with the report or provided as soon as possible.

### **9.6.2 Confidentiality**

Requests for confidentiality by persons making a complaint will be honored to the extent possible within the legitimate needs of the investigation. All investigations undertaken are confidential. Information will only be disclosed as required by the legitimate needs of the investigation.

The work product of the VRC is also confidential, and its members are advised of the sensitive nature of the discussions carried out therein. Until decisions are final, the identity of the vendors or implementing partners involved is kept confidential within ZZF. Senior Managers may, at their discretion, share general aspects of a case with other agencies, funds and programmes on an as-needed basis.

### **9.6.3 Anonymous reports**

Individuals wishing to protect their identity may report fraud anonymously. For anonymous reports, a report number and code are used to allow the individual making a complaint to follow up and to check if the assessing officer has requested further information.

### **9.6.4 Protection against retaliation (“Whistleblower” protection)**

ZZF does not tolerate any form of retaliation against whistleblowers, i.e. an individual holding a ZZF assignment/contract that has reported allegations of wrongdoings or cooperated with a duly authorized audit or investigation.

### **9.7 Investigation of allegations**

All allegations of fraud and corruption are taken seriously. Upon receipt of an allegation, the investigators will assess the case and if it determines that there is sufficient ground to warrant an investigation, it will conduct an investigation. In addition, the investigators may undertake proactive investigations in high risk areas that are susceptible to fraud and corruption. The team shall also coordinate with other fraud investigation and enforcement offices, as appropriate, to ensure the effective investigation of fraud involving external parties, parties for whom does not have the authority to investigate, or for investigations involving more than one organization.

### **9.8 Action based on investigations**

The allegations, if substantiated by the investigation, may result in disciplinary and/or administrative actions or other actions taken by ZZF, depending on the case. The outcomes may be as follows:

- For staff members, disciplinary and/or administrative actions.

- For Service Contract holders and Individual Contractors, non-renewal or termination of their contract or other action as deemed necessary. Cases involving Individual Contractors may also be referred to the VRC.
- For Volunteers, standard procedures are followed, ultimately with a recommendation made by the Panel on Disciplinary Measures to the General Director.
- For vendors, termination of the contract and debarment from doing business with ZZF or other sanctions.
- Referral to the national authorities of a member state for criminal investigation and prosecution.
- Recovery of financial loss and/or assets suffered by ZZF, and to return funds recovered to the respective funding sources.
- Issuance of Management Letters to allow business units concerned to take corrective actions and strengthen internal controls.

#### **9.9 Remediation and implementation of lessons learned.**

The investigating team will also use its collective knowledge gained from lessons learned on audits and investigations to enable ZZF management to be more proactive in dealing with potential systemic weaknesses. When appropriate, the team will provide briefings and reports on risks facing the Organization and “lessons learned” from investigations to relevant management in ZZF. In addition, if during an investigation the team determines that there is a substantial risk to security, or a threat to personnel or ZZF interest, it may inform persons with a need to know of sufficient information about the investigation to allow them to taking mitigating measures. Action is then taken to address the problems identified and prevent their recurrence.

Periodic review shall be carried out on the outputs from the investigation processes and the resultant remediation, mitigation, sanctions and recovery cycles, to ensure that this process is operating coherently and timely, and to seek to improve the effectiveness of the process.



## **9.10 Reporting**

ZZF has a long-standing commitment to transparency, including reporting on matters of fraud and corruption. ZZF Annual Report on Disciplinary Measures, actions taken in Response to Fraud, Corruption and Other Wrongdoings includes an overview of actions taken in cases of fraudulent or corrupt practices. The annual Report on internal audit and investigations to the Board of trustees contains information on investigations of fraud and other corrupt practices conducted during the reporting period. In addition, reports of cases of fraud and alleged fraud are annexed to ZZF annual Financial Report and Audited Financial Statements.

## 10.0 SHARED COST ALLOCATION

### Overview

This section defines ZZP's cost recovery methodology for Shared Program Costs (SPC), to optimize cost recovery and ensure compliance with donor rules and regulations and ZZP. The SPC allocation policy does not address areas such as budget proposals and forecasts, negotiation with donors, indirect cost recovery rate calculation or administrative retention. The policy applies to all ZZP field offices. A detailed procedure document is issued separately to provide in-depth description of the allocation technicalities.

Shared Program Costs are core costs incurred by field offices and head office to provide management oversight, administrative and financial services to support all programs and awards implemented. These costs include personnel costs, rent, utilities, security, janitorial services, office maintenance and other general operating costs that are reasonable and necessary for the overall operation of the ZZP but cannot be easily identified with a particular program or award.

Total Program Cost = Direct program cost+ Shared Program Cost + Indirect cost

### 10.1 Policy

- The total cost of a program is the sum of the direct costs and indirect costs. Each proposal, budget or plan must include estimates of direct and indirect costs with a goal of full cost recovery.
- Indirect costs are incurred by ZZP for services and activities that benefit more than one office. Indirect costs are usually recovered using fixed rates, i.e. NICRA, ADRET or similar fixed rates negotiated with the donors.
- ZZP treats all costs incurred by ZZP as direct costs. Direct costs that can be easily identified with a program or an award are Direct Program Costs. Direct costs such head office

management oversight, administrative and financial services incurred to support all programs and awards implemented by ZZF staff are Shared Program Costs. These costs include personnel costs related to management oversight and shared finance and program support services, rent, utilities, security, janitorial services, office maintenance and other general services or operating costs that cannot be easily identified with a particular program or award.

- Whenever feasible, personnel costs are budgeted and charged directly to the awards on which the staffs are working. Whenever feasible, personnel costs for staffs that support multiple awards or programs are directly allocated to those awards as supported by personnel activity reports. When direct charge is not feasible because staffs provide management oversight and general administrative support to all programs and awards in the head office and field offices, these costs are treated as SPCs.
- Every field office should develop a complete Shared Program Cost budget for its operations. This budget should clearly identify those costs charged directly to individual awards based on donor requirements and those costs initially accumulated in a SPC cost pool and subsequently allocated to awards and other funding sources on a monthly basis. The allocation methodology should take into account both direct and allocated SPC charges to produce reasonable and equitable results.
- ZZF uses the single factor method to allocate SPC to the awards. Two single factors are allowed: Adjusted Monthly Direct program cost factor, and office space factor.
- Monthly SPC allocations must be based on actual expense data. Budget estimates must not be used as factors to allocate costs. Shared Program Costs charged directly to awards in accordance with donor agreements needs to be clearly identified in the field Offices financial records.
- An award must not be charged more than allowed in the approved budget. Head office management must review individual donor agreements to ensure that SPC allocations do not violate the terms of the award.
- ZZF normal rule is that all awards contribute to SPC cost recovery using a fair share basis. If certain donors limit contributions to SPC, head office management is responsible to identify

other sources of funding within the same program to cover the SPC funding gap. Some donors may accept to cover a larger amount of SPC than would result from the fair share calculation, to support the achievement of the overall objectives of a particular program initiative. Therefore, SPC that cannot be covered by an award may be covered by other awards or supplementary funding from ZZF Member Partners within a program based on agreement from donors. Such agreement must be documented.

- ZZF uses unrestricted funds only if restricted funds are unable to cover the full costs of a program. As unrestricted funds are limited resources, head office should negotiate the full recovery of their program costs with the donors and ZZF Member Partners, including SPC.
- Head office must maintain adequate documentation to support SPC allocation factors and results.

## **10.2 Responsibilities**

It is the general responsibility of ZZF employees in the following roles to understand and comply with this policy and associated procedures:

- Prepare proposals, manage finance for programs.
- Manage program or budgets, office administration and oversight functions.

Specific roles and responsibilities include:

### **Finance and administration manager:**

- Prepares the SPC budgets, methodology and factors to be used.
- Prepare monthly SPC allocation forms/table
- Reviews SPC allocations proposed by SSC; discusses results and required actions with CO management.
- Maintains SPC documentation

### **General Director/Designate**

- Approves the SPC budgets, methodology, factors, monthly allocation worksheet and office space cost allocation form; and reviews allocation results.
- Negotiates SPC budgets with donors, approves unrestricted budget allocations to cover SPC gaps.

### **10.3 SPC Allocation Process and General Principles**

This section provides a high level description of the allocation procedure. Detailed guidelines are provided separately to describe the technical cost allocation process, the system used to run the allocation and how to produce allocation results.

#### **10.3.1 Process Overview**

The SPC allocation and cost recovery process works as follows:

- ZZF incur two types of direct costs: direct program costs and SPCs.
- SPCs are charged either directly to the awards based on donor agreement, or accumulated in cost pools and subsequently allocated to awards and other funding sources at the end of the month.
- SPC allocation is done proportionally to the “adjusted” direct program costs. The direct program costs are adjusted to exclude items such as in-kind commodities, donations in-kind, etc. For SPC such as rent, utilities and similar operating costs, the allocation is done proportionally to the office space occupied by staff.
- Programs are generally funded by multiple awards. SPC that cannot be covered by one award have to be allocated to other sources of funding for that same program, based on agreement from donors.
- In case an award for which a ZZF Partner is the contract holder cannot cover its fair share of SPC due to budget limits or other donor restrictions, and no other restricted funding sources exist, the reasonable and necessary SPC funding gap needs to be covered by that

ZZF Partner. This needs to be documented at proposal stage and when the award has been signed by the ZZF Partner.

- ZZF share of the funding gap or non-billable cost is charged to unrestricted funds if not covered by other restricted funding sources.

### **10.3.2 Adjusted Monthly Direct Program Cost**

The direct program cost is a straightforward factor commonly used to charge each award its fair share of the costs.).

The following items are excluded from the basis (the exhaustive list of excluded items will be maintained separately from this policy document):

- All in-kind items (e.g. food/non-food commodities, CIK, donations in-kind)
- Local management and administrative support costs and management fees charged by HOs through a flat rate mechanism.
- One-time expenditure (e.g. one time cash receipt and disbursement for a pass-through program where ZZF has some fiduciary responsibility). This type of unusual program activities will be charged a onetime management fee.
- Unrestricted fund allocated to proposal development and disallowed costs.

### **10.3.3 Office Space Factor**

The facility costs include rent, utility, maintenance/repairs, security, janitorial services or similar costs and are allocated to the awards based on the space occupied. If program staffs are co-located in the office, their shares of facility costs for space occupied are direct costs to their programs or awards. Common space and spaces occupied by HO management and administrative support staff are SPC to be allocated to all programs or awards. Common spaces include the hallway, bathroom, reception area and storage.

#### **10.4 Managing SPC funding gap and cost recovery**

The fair share amount to be covered by each award is computed proportionally to the Adjusted Monthly Direct program costs. Facility costs are allocated proportionally to the space occupied in the office. Some donors may accept to cover the full costs allocated, or specific portions of the costs (e.g. office rent, utilities), or a higher share of certain Shared Program Costs (i.e. a fixed percentage of certain management oversight or general administrative staff and other shared costs at a lesser rate). Shared Program Costs that cannot be covered by an award need to be covered by other awards or funding sources within a program based on agreement from the donor contributing to a program.

#### **10.5 Documentation of Cost Allocation**

Typical cost pool documentation would include this policy, the values of the cost allocation factors, the methodology and computation of the percentage distribution, and evidences supporting the reviews done by HO management.