ACTIONAID INTERNATIONAL FINANCIAL MANAGEMENT FRAMEWORK

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1 INTRODUCTION

This framework establishes the financial policies and standards (and procedures) for ActionAid International (AAI) and its Affiliates and Associates. The framework demonstrates AAI's concern for financial integrity; as such it is important evidence of our accountability to all stakeholders. Finance functions across the organisation are charged with establishing and communicating the policies (and procedures) contained in the framework.

The AFMF does not list the detailed operational control arrangements that each ActionAid office is expected to have in place. It simply documents the financial policies and standards expected. Every Country Programme, Affiliate, Associate and the Secretariat is expected to produce and update regularly their own local Financial Policies and Procedures Manual (FPPM) to cover detailed operational aspects of accounting control in that office.

A three-page summary of the AFMF has been produced as part of this manual. (See Appendix I)

1.1 SCOPE

It is expected that all Country Programmes, Affiliates, Associates and the International Secretariat will comply fully with the AFMF and the local FPPM.

Financial Management is the responsibility of everyone in the organisation. In carrying out their duties, all managers are responsible for considering the financial implications of their actions – for managing the resources entrusted to them in a cost-effective way. Managers are therefore responsible for understanding and complying with all aspects of the AFMF and the FPPM including relevant legislation, policies and guidelines.

The guidance in this manual is a means to;

- Establish our financial accountability
- Streamline processes for recording financial events and reporting financial information
- Enable Country Programmes, Affiliates, Associates and the Secretariat to apply common standards while providing flexibility to satisfy unique needs
- Increase the reliability and consistency of financial information at AAI
- Promote uniform accounting processes to aid new Country Programmes and Affiliates in using the organisation's financial management systems

Each Country Programme or Affiliate however may define supplementary directives and standards to satisfy its unique needs, as long as they are consistent with the organisation-wide standards. Where non-compliance with a specific policy is necessary, given the local context, this requires the explicit approval of the International Director of Finance.

Internal Audit visits will review compliance with this framework across the organisation. It is anticipated that support systems will be available within the international finance function to support the financial governance of new Affiliates and Associates.

1.2 POLICY ON BUSINESS CONDUCT

Managers should ensure that all staff, consultants and grantees of ActionAid International conduct AAI activities morally, ethically, and in the spirit of public accountability and transparency, and in conformity with applicable laws, regulations and best practices.

Note: ActionAid International is often referred to as ActionAid throughout this document.

2 ACCOUNTING POLICIES

The principal accounting policies for ActionAid International cover the areas listed below. The policies are to be applied consistently across the organisation.

1. Reserves
2. Income
3. Expenditure
4. Currency and Exchange Rate Management
5. Investments
6. Fixed Assets
7. Liabilities
8. Accrued Income and Expenditure
9. Prepayments

2.1 RESERVES

Reserves represent the capital of the organisation, fixed and working, including short-term resources. ActionAid's reserves policy is set by the Board of Trustees.

Country Programmes, Associates and Affiliates should manage their reserves in a way that preserves the viability of the organisation and enables the organisation to meet its legal objects.

2.1.1 Reserves Policy

ActionAid International seeks to maintain reserves that are no higher than is necessary to protect the organisation against the impact of financial risks materialising. The reserves policy established to put that principle into practice is as follows.

2.1.2 Restricted funds

The restricted reserves that are taken into account for the purposes of this policy are balances of funds from individual supporters, typically committed givers, excluding funds invested in fixed assets. Balances of funds from partnership donors, official and other, are not taken into account.

Each Country Programme, Affiliate or Associate which benefits from committed giving income should aim to maintain total reserves of not less than two months and not more than four months of its total planned expenditure for the following year.

Any plans showing reserves of more than one third of the following year's spend should only be approved in exceptional circumstances.

Country Programmes whose committed giving income is less than 20% of their total income are exempt from this policy; their financial risks are covered by the unrestricted fund policy below.

2.1.3 Unrestricted funds

Affiliates which raise unrestricted funds for the organisation should maintain unrestricted fund reserves, including for these purposes balances of internationally restricted funds or multi-application restricted funds from individual supporters, but excluding funds invested in fixed assets, that are sufficient to cover the following:

a) ActionAid International

i) 10% of the following year's spend of those Country Programmes/Affiliates for which committed giving represents less than 20% of their planned income (less any reserves of committed giving income that they may have) and 10% of planned spend of restricted fund outside the Country Programmes;

ii) 10% of the aggregate of other Country Programmes' shortfalls below the minimum required under the restricted fund policy;

iii) £250,000 in relation to financial risks around the management of large donor contracts; and a minimum of one twelfth of its planned spend of unrestricted, or internationally restricted fund.

b) Affiliates

A minimum of one quarter of their following year's spend of unrestricted fund.

Notes:

1. Reserves do not include balances of unspent moneys advanced by us to our partners. To the extent that reserves are a cushion against unexpected expenditure variations' there is an undue element of prudence when both AAI and Partners are holding cash in the bank for a particular DA.
2. A risked approach should be taken in deciding the amount of reserves necessary given the fact that a number of Country Programmes have little or no committed giving income.

2.2 INCOME

ActionAid International receives and administers donations and contributions made in support of its programmes. Income shall however be recognised only when they become realisable with reasonable practical certainty. Funds received are classified according to two general groups - Restricted and Unrestricted - for administrative purposes, each of which requires different administrative processes.

2.2.1 Restricted Funds:

Restricted Funds are funds subject to the specific requirements of or understanding with the donors. Trustees will be in breach of trust if they allow such income to be expended in any activity other than that for which the expenditure is restricted. At ActionAid examples of restricted funds include child sponsorship income (restricted to a specific development area), National and Flexible fund income (restricted to innovative projects within the rules of both of these funds), Next Step income (restricted to any activity within a specified country) or official income (restricted to a specific donor approved project). In each of these examples the income has been restricted to the level of a Country Programme, Affiliate or Project.

On a quarterly basis, each country programme prepares an income and expenditure statement (table E) identifying the movement on the various Restricted Funds within their authority.

2.2.2 Unrestricted Funds:

All income received by ActionAid which is not specifically restricted by the donor is credited to Unrestricted Funds. Trustees have full discretion to expend these funds in pursuit of the organisation's objects. ActionAid raises unrestricted income either through fundraising initiatives aimed directly at that type of income or by way of a levy or administrative charge on linked regular giving and project-specific partnership income. Income tax recovered on individuals' donations and investment income are also classed as unrestricted income.

Occasionally the Trustees may 'designate' a proportion of the unrestricted funds for specific initiatives in the future. Designated funds can however be undesignated at a later date, should the Trustees so wish. Currently ActionAid's unrestricted funds include a designated fund equivalent to the net book value of fixed assets in the UK, Italy, Ireland and Greece.

2.3 EXPENDITURE

It is the policy of the organisation that Country Programmes, Affiliates, Associates and the Secretariat establish and maintain effective internal control procedures consistent with requirements. In particular;

- All expenditure must be consistent with the intention of the donors and mission of the organisation

- Payments must be processed in accordance with the guidelines, policies and procedures contained in this framework and in the local FPPM.
- Expenditure should be appropriately authorised
- Expenditure should be included in the financial statements in accordance with the accruals concept i.e recognising expenditure in the period in which they occur.

2.4 CURRENCY AND EXCHANGE RATE MANAGEMENT

ActionAid's policy is to minimise the risk of currency fluctuation on its income and expenditure where it is cost effective to do so.

2.4.1 Minimising currency fluctuations through choice of hard currency for remittances

In many of the countries in which ActionAid operates, the local currency is tied to a "basket of currencies". Many of these "baskets" are dominated by the US Dollar.

Local offices should advise the International Finance function prior to the establishment of a budget exchange rate for local currency against sterling, if they believe their local currency is tied to the USD.

The decision whether or not to acquire currency cover is taken by the International Director of Finance after consultation with the Honorary Treasurer. Local offices are not permitted to speculate on the currency markets through forward cover contracts, hedges, options, swaps or other financial instruments without the approval of the International Board of Trustees.

2.4.2 Hard currency accounts overseas

Where local offices are able to hold foreign currency accounts, it is ActionAid policy that local offices should aim to hold as much as possible of their local cash in hard currency accounts.

2.5 INVESTMENTS

ActionAid International aims to invest funds to maximise returns within appropriate risk and liquidity constraints.

The International Trustees and AAUK Trustees currently have responsibility for balancing the demand to spend money today against the need to have sufficient resources available to ensure continuing spend in the future. These differing demands are balanced through the holding of reserves. ActionAid's Investment Policy is managed through an Investment Committee, established by the International Board of Trustees.

2.5.1 Long-term Investments

All the agency's reserves are in simple terms set aside for expenditure to cover an unexpected decrease in income or an unexpected expenditure requirement. As such, they are all essentially short-term in nature. However, the restricted fund reserves are extremely unlikely to all be required at the same time and so it is considered acceptable for a proportion of them to be ring-fenced for long term investment.

ActionAid will not invest in any fixed-interest security that is not investment grade, rated AA or higher by Standards & Poors or equivalent agencies.

The management of the long-term portfolio will be delegated to an Investment Manager whose performance will be monitored by the Investment Committee. All investments in companies, from shares to short-term debt, will be made in compliance with an ethical policy, reflecting ActionAid's concerns as an international agency dedicated to the fight against poverty.

2.5.2 Short-term Investments

ActionAid's short-term investments are expected to be largely in cash deposits with banks or in certificates of deposit or other short-term corporate debt. Government gilt-edged securities with six months or less before maturing will also be eligible investments. Deposit taking institutions and certificates of deposits or other short-term corporate debt will have a Standard & Poors short-term rating of AI+ and a long-term rating of AA– or higher.

Cash deposits will generally be of no more than 3 months duration. Up to 25% of the short-term portfolio may, however, be invested for between 3 and 6 months.

Deposits with any one deposit-taking institution should not exceed £5 million.

2.6 FIXED ASSETS

Country Programmes, Affiliates, Associates and the Secretariat shall maintain appropriate systems for the safeguarding of ActionAid property. Capital items shall be properly authorised, purchased, recorded, accounted for, valued and disposed of.

Assets represent items of value that the organisation owns or controls. To be considered for capitalisation and thus subject to depreciation, an asset must be fulfil the following criteria;

- The asset must be acquired (purchased, contracted or donated) for use in operations
- The asset must cost £5,000 or over (cost includes any incidental expenses of acquisition). Assets costing under £5,000 are expensed and are not entered in the asset register.
- The asset must have a useful life of at least 2 years

Depreciation is calculated using a straight line method for the following categories of fixed assets;

ASSET	DESCRIPTION	IN EUROPE	OUTSIDE EUROPE
FREEHOLD PROPERTY	Buildings owned by ActionAid International	25 years	10 years
OFFICE EQUIPMENT	Computer Equipment Other Equipment e.g photocopiers, generators and any other equipment used in the programme	3 years 5 years	3 years 3 years
MOTOR VEHICLES	All Motorised transport e.g cars, trucks	*	3 years

* Depreciation on motor vehicles held in Europe is calculated at 25% on the reducing balance method.

Notes:

i. A full year of depreciation should be charged in the year of purchase of an asset and nil in the year of disposal.
ii No depreciation is charged on freehold land.

2.7 LIABILITIES

Liabilities represent the ActionAid International’s financial obligations to outside parties who have provided resources to the organisation and should be reported in the Balance Sheet using the accruals basis of accounting.

Liabilities shall be recorded initially in the designated accounts for the accounting period during which the transactions giving rise to them occurred and removed in the period during which they are liquidated. Amounts recorded as liabilities shall be supported by sufficient documentation that establishes the basis for their inclusion in the accounts.

The accounting requirements for liabilities may vary between offices, depending on the volume and value of liabilities. Similarly, the policies adopted for taking advantage of credit facilities offered by suppliers will also depend on the circumstances of the office and the country in which it is operating. In some countries, purchases are largely made on a payment on delivery basis, whereas in other countries there may be the opportunity to take credit for a certain number of days without jeopardising the relationship with the supplier or incurring interest charges.

2.8 ACCRUED INCOME AND EXPENDITURE

Accrued income represents the amounts of money due to be paid to ActionAid International by contracted official (government) or non-official donors, for work already completed by the end of the year, independent of whether the funds are received locally or at another Country Programme or Affiliate. The total amount of monies accrued should also be reflected in debtors.

For monthly reporting, accruing expenditure serves to match the expenditure to the period in which the benefits are received. Therefore, accruals should only be made where the goods or services have been received prior to the end of the accounting period, but where payment has not been made.

In deciding how any individual transaction should be treated, the Head of Finance needs to determine for each source of funds;

- What legal arrangements (eg contract) govern the terms of the arrangement and how any disputes arising are to be settled
- Whether any entitlement to the funding requires a specific performance to be achieved (a contract or performance related grant)
- Whether funds can be used for any of the purposes of the organisation, or whether they can only be used for a specific purpose

Accruals should not be made simply to show expenditure in the period in which it was budgeted, unless the goods or services were actually received in that period.

Where the incoming resources are received in advance then ActionAid may not have entitlement to these resources until the goods or services have been provided. In this situation, incoming resources received in advance should be deferred until ActionAid becomes entitled to the resources.

2.9 ADVANCES AND PREPAYMENTS

All payments in advance of the current period should be recorded as assets until receipt of the goods or services involved or until contract terms are met. This excludes Grants to Partners which should be expensed in the Income and Expenditure Account.
Finance staff should ensure that invoices are verified to identify areas where prepayments may occur. Prepayments are considered a standard business practice for the following types of transactions; Memberships and Subscriptions, Rent, Insurance Premiums, Payment to Government Units and Required Deposits. Other prepayments may be acceptable only if it is cost beneficial. The location, reputation and other characteristics of the vendor should be taken into consideration when making prepayments as it could have a bearing on the ability to recover the payment if the vendor defaults in the delivery of the supply or service.

3 FINANCE STRUCTURE

3.1 CENTRE

The International Director of Finance has responsibility for the planning, monitoring and reporting of all financial activities of ActionAid International. The International Director of Finance reports to the Chief Executive, who is appointed by the International Board. The Board of Trustees is responsible for setting the strategic direction of ActionAid International, for monitoring its achievements and for ensuring its financial integrity at all times.

The International Finance Function incorporates the following activities;

- **AAI Finance:** compiling financial information on the AAI entity and all parts of the organisation and for producing ActionAid International aggregated accounts.

- **Financial Performance and Standards:** optimising the allocation of resources and the quality of financial performance management across the organisation, ensuring international financial standards are complied with and providing financial training and capacity building support where needed.

- **Internal Audit:** reviewing the adequacy of internal controls and coordinating the risk management process

- **SUN Support:** maintaining and providing technical support on the SUN financial accounting package.

AAI affiliates, associates and country programmes should determine and institute the most appropriate financial management structure.

3.2 AFFILIATES, ASSOCIATES AND COUNTRY PROGRAMMES

ActionAid International comprise affiliates, associates, country programmes and the international secretariat. Each of these units is expected to have a locally based Head of Finance.

The Head of Finance should report to the most senior manager in the office (e.g. Director in Affiliate Organisations and Country Director in Country Programmes) who, ultimately, has accountability for the financial integrity and financial performance of the office. The Head of Finance should ensure that he/she has a Finance team of a suitable size and level of skill.

Heads of Finance in ActionAid International country offices have an open access to Regional Finance Co-ordinators and the International Director of Finance in relation to financial management issues which in their view require escalation above their line managers. (See Appendix II for Head of Finance Induction)

3.3 INTERNAL AUDIT

Internal Audit functions play a crucial role in ensuring compliance with international/local policies and procedures and in strengthening financial integrity through recommendations for improving systems and processes. All country programmes, affiliates and associates should regularly evaluate the benefits of a locally based audit function (either employed or outsourced) against the resources available and the nature and risks of the work they perform.

The international audit function based at the International Secretariat, undertakes internal audits across ActionAid's country programmes, affiliates, regional offices and thematic groups on a cyclical, risk-assessment basis. The audit function also coordinates the organisation's risk management ptocess.

3.4 STATUTORY AND MANAGEMENT REPORTING

ActionAid International will prepare aggregated accounts on an annual basis both for official purposes and for management. These accounts aggregate the activities of ActionAid's offices around the world. Each year the International Finance Function will issue instructions to all country offices explaining the basis of accounting for the year in question.

The International Board of Trustees also requires all Country Programmes, Affiliates, Associates and Regional Offices to submit an Annual Finance Report. The basis of the preparation of this report may differ from the official basis.

4 FINANCIAL MANAGEMENT PROCESSES

Processes are the means by which the AFMF is operationalised. Legislation and Policies exist and provide direction to managers in carrying out their financial management responsibilities. The AFMF identifies process standards or expectations in the following areas;

1. Planning and Budgeting
2. Financial Reporting
3. Bank and Cash Operations
4. Expenditure
5. Remittance
6. Recharges
7. Risk Management

4.1 PLANNING AND BUDGETING

4.1.1 Planning Principles

Every Regional Office, Country Programme, Affiliate, Function or Thematic Group is required to produce a three-year plan making clear how resources are to be allocated and how the planned activities contribute to strategic objectives.

The core elements of ALPS are contained in a separate document which is available on the global intranet. These plans include specific objectives planned over the next three years and the resources required to fulfill them. Through the matching of income and spend, the plan provides all parts of ActionAid with the confidence that the funds of the right type are available to achieve objectives in the medium term and to provide a basis for assessing progress in achieving strategic objectives.

Guidelines for the preparation of the three-year plan are issued annually by the International Director of Finance and are also available through the global intranet.

The organisation-wide three-year plan is submitted to the International Board of Trustees for approval in December of each year.

4.1.2 Budgetary Principles

Each unit (country programme, affiliate, associate, function, theme and the Secretariat) within the organisation should also prepare an annual budget within the first year framework of the plan, but the process, format and timetable for the budgetary exercise is left to the discretion of the Director/Head of the unit. The unit has scope to include block-budgeting principles where detailed activity budgets are not available.

The budget represents the costs of detailed activity plans subject to block-budgeting, and provides the basis for management accounts control.

The budgets should be completed and loaded onto the local accounting system before the commencement of the budget year. The budgeted income, expenditure and year-end reserves should be within 3% of the approved plan.

4.1.3 Authority limits post plan approval

During the planning process all units will present expenditure plans in line with country, regional and functional strategies. The plans will either be funded by confirmed funding (e.g. regular giving or confirmed partnership funding) or by unconfirmed funding (e.g. unconfirmed partnership income)

Where a country programme or affiliate receives more confirmed income than is in its plan or budget, the programme has full authority to expend these resources, subject to funded activities being in line with their approved strategies and subject to any maximum approved overdraft limits and end of year planned reserve levels standards being maintained (expressed as a number of months of the following year's expected expenditure).

4.1.4 Emergency Interventions

Emergency initiatives may, by their nature, be outside of the country or regional strategy. If the emergency intervention is within the regional strategy and funding is confirmed, then the activities can go ahead. The Regional Director is responsible for informing the Board of Trustees where funding is significant and for ensuring the region has the capacity to manage the intervention. For small-scale interventions or rapid responses, the Emergencies Unit holds a small fund, which can be accessed through a committee chaired by the Head of Emergencies Unit.

If a proposed emergency response is outside the Regional Strategy then the Regional Director should seek approval from the Chief Executive and the International Director of Finance.

The Chief Executive (CEO) and the International Director of Finance (FD) have authority to approve additional Unrestricted Fund expenditure to any budget above the total approved during the plan process, providing that;

- Expenditure is to fund activities within the appropriate strategy.
- The expenditure will not cause the unrestricted reserves to fall below the minimum level approved by the Trustees
- Trustees are notified of all expenditure approved by the CEO/FD

Managers/Unit Heads have full control over the allocation of budgeted expenditure within their department, provided that they do not commit their department to ongoing expenditure beyond the current plan and provided they do not exceed approved headcount. By way of example, expenditure on consultancy fees could be switched to expenditure on software. Likewise, Directors can exercise discretion within the division or function, switching expenditure amongst departments as necessary.

4.1.5 Authority to spend un-confirmed funding in the plan or budget

With unconfirmed funding, expenditure is dependent upon receipt of funding. In such circumstances offices should not incur expenditure prior to confirmation of funding by a donor, unless the country programme is able to fully underwrite the expenditure from its country reserves.

4.2 Financial Reporting

ActionAid International is registered as a Dutch Foundation. The accounts of AAI will be prepared for the time-being in accordance with all relevant law and applicable accounting standards.

Management and financial reporting are a key part of maintaining and demonstrating financial integrity and, in the case of management reporting, for financial information to be brought into the decision making process. Timely, accurate and relevant financial information for management (through management accounts) should be provided by the Finance functions across the organisation.

All Country Programmes, Affiliates and Associates are requested to ensure that financial reporting (internal and external) is done on a basis that can be externally audited and in ways which give a clear understanding of how funds have been expended.

4.2.1 Year-end Statutory Accounts

Every ActionAid Country Programme, Affiliate, Associate and the Secretariat is required to prepare annual Statutory Returns for both the local office external audit and submission to the international reporting team for aggregation and audit purposes.

Detailed guidelines for the completion of the Statutory Returns are issued on an annual basis by the International Finance function. The accuracy and timeliness of all financial information remains the responsibility of the Country Director.

4.2.2 Annual Finance Report

An Annual Finance Report is required from every ActionAid Country Programme, Associate, Affiliate and the Secretariat to help in assessing financial performance of the organisation.

On an annual basis, the following should be submitted by Country Programmes and Affiliates to the Regional Office and the Local Advisory Board/ Board of Trustees at times agreed with the International Reporting Team;

i. 4th Quarter Management Accounts
ii. Annual Finance Report
iii. Final Audited Accounts and Management Letter (where applicable)

Funding affiliates and the Secretariat will report directly to the International Reporting Team. A summarised version of the Annual Finance Report should be included as an appendix in the Annual Review and Learning Report.

4.2.3 Management Accounts – Monthly and Quarterly

In order to make timely and meaningful management decisions, accurate financial information is necessary. In addition, being able to compare accounts with original budgets enables management to identify favourable or adverse trends, and to highlight variations in income or spending which may require special attention.

All Country Programmes, Affiliates, Associates and the International Secretariat should therefore prepare and disseminate monthly and quarterly management accounts for budget-holders. Accounts should be prepared in local currency.

Management accounts should be prepared in a user friendly manner and made available to budget holders;

- **within three weeks of the month end (Monthly Management Accounts)**
- **within four weeks of the end of quarter (Quarterly Management Accounts)**

A copy of the management accounts should be distributed up one level of the accountability chain (as per ALPS). In other words the quarterly accounts of a country programme or affiliate should be sent to the regional office and members of the Local Advisory Board. The Quarterly accounts should include a Table E (Income and Expenditure statement identifying the movement on the various Restricted funds within their authority) .

4.2.4 Monthly Country Programme Reports – PROBALS, FATS and SLIM

The International Finance Function reports to all country offices on a monthly basis on PROBAL (UK held programme balances), the FATS (Partnership Funding Against Targets), and the SLIM (Sponsor Links Income Monitoring). The standard reports are the PROBAL (UK held programme balances), the FATS (Partnership Funding Against Targets), and the SLIM.

As a standard, final year-end versions of these reports are to be distributed by the International Finance Office within 6 weeks of the year-end.

The PROBAL, FATS and SLIM reports are distributed monthly to ActionAid offices.

As a standard these reports are to be sent out within two weeks after the month-end.

4.2.4.1 PROBAL

The PROBAL is a statement of the country programme's account with the UK, Italy, Greece and Ireland as at the end of every month. It is expressed in £ sterling. It is divided into three columns which show the brought forward figures from the previous month, the current month movement and the cumulative balance to be carried forward to the next month. Movements on the account are categorised into the various types of income and expenditure or remittances.

4.2.4.2 FATS

The FATS report shows partnership income received by Funding Affiliates each month, split between non-official funding and official funding. Funding is further analysed between the different projects. FATS also shows target or planned figures for each of the income categories.

4.2.4.3 SLIM

The SLIM is a statement of sponsorship income received by Funding Affiliates in each month for each DA in a country programme. It is analysed between income directly related to a child link and other regular giving categories.

4.2.5 Reporting on Donor-Funded Contracts

Every Country Programme, Affiliate, Associate and the Secretariat has a responsibility to honour our accountability commitments and honestly report to donors on projects funded.

The finance functions should work closely with Programme Managers and the Partnership Development teams at both local and international levels to ensure that all contractual requirements on donor-funded contracts are met.

The finance department should support the donor reporting process by generating donor reports from the accounting system in the format requested by the donor.

Country Programmes and Affiliates are encouraged to seek local funding for identified projects and manage the relationship with the donor at the local level.

Where the reserves of a country programme are inadequate to underwrite a pre-funding contract, express permission should be sought from the International Director of Finance before any contract is agreed with a donor.

4.3 BANK AND CASH OPERATIONS

Finance functions across ActionAid International should ensure proper and consistent cash and cheque handling procedures, which prevent the loss, theft or mis-appropriation of funds entrusted with the organisation.

Funds should be made available for ActionAid's project work while minimising the risks of loss, fraud or misappropriation.

4.3.1 Banking Operations

4.3.1.1 Bank Selection and Account Opening

When opening a new bank account for a new Country Programme/Affiliate or Regional Office or when moving to a new bank, the bank's reliability, integrity and financial stability must be confirmed. A local office wishing to use a new bank should detail the investigations made and the reasons for selecting the particular bank. An account must not be opened with a new bank until written authority is received from the International Director of Finance.

New accounts with existing approved banks may be opened with the authority of the Country Director.

4.3.1.2 Bank Operation Standards

Two signatures are required to make any payments from a bank account. The signatories for the bank accounts must be established and authorisation limits set for expenditure.

Bank account balances must always remain in credit. No overdrafts are allowed without approval from the International Director of Finance.

Cheque books must be retained in a secure location in order to avoid misuse and possible misappropriation of funds. Cheque signatories should not have access to cheque books. Cancelled cheques should be retained.

4.3.1.3 Bank payments

All payments, whether by cash, cheque or bank transfer, must be made only on the basis of authorised documentation. Payments should be documented on a payment voucher, which should be attached to the corresponding invoice. The person authorising the expenditure must sign payment vouchers.

The payment voucher may include more than one item of expenditure. The vouchers should have a sequential reference number (preferably preprinted). They should also be coded with a cost centre and account code corresponding to the budget line item so that the information can be correctly recorded in the accounting system and the relevant T codes.

All expenditure must be supported by invoices/receipts. If these are not issued by a supplier, a receipt should be drawn up by the country programme and signed by the supplier.

4.3.1.4 Receipts

All cheques received should be banked as promptly as local procedures allow. As cheques may be received in the post, it is essential that the post is opened in the presence of two employees. They should keep a register of all cheques received in the post. The register should accompany the cheques to the cashier, who should sign the register to confirm he or she has received the cheques and issue the receipt to the payer.

A pre-numbered receipt book should be maintained for cheques and large amounts of cash received and a receipt issued to the payer. Receipts should be signed by the person receiving the cheque or cash.

4.3.2 Cash

4.3.2.1 Cash Book

The cash book records all receipts of money and payments by cheque or bank transfer. The cashbook should be updated daily from the voucher information. Where an accounting software is in operation, only the cashbook on the system should be used. The voucher number should be noted in the cash book for cross-referencing and to maintain an audit trail.

A separate cashbook should be maintained for each bank account.

The bank balance must be checked regularly to ensure that sufficient funds are available and that the bank account is not overdrawn.

All bank accounts should be reconciled within one week of receipt of bank statements (not later than three weeks from month end).

The reconciliation should take account of cheques drawn, but not yet presented at the bank and of deposits made which have not yet been recorded on the bank statement as well as bank charges and unrecorded deposits shown in the bank statement but not in the cashbook. The reconciliation procedures should include investigation of all discrepancies. The reconciliation should be reviewed and authorised by the Head of Finance.

4.3.2.2 Petty Cash Payments

Cash payments should be made when the amounts involved are so small that it would not be cost effective to process through other means. ActionAid International allows imprest petty cash funds to be established at its offices. The following procedures should apply;

- Cash holding should be kept to a minimum as funds held as cash are generally less secure than funds held in a bank account.

- An upper limit for the size of cash payments should be fixed, over which payments should be made by cheque. Large cash amounts should only be held if there are no local banking facilities.
- Cash should be kept in a secure safe
- Cash payments should be authorised prior to any payment being made and all expenditure should be supported by receipts where possible.
- Expenditure should be recorded in a petty cash book preferably on the computerised accounting system.
- The petty cash book should be updated daily to record all payments (based on petty cash payment vouchers) and receipts of cash (based receipt forms). The cash balance should not exceed the agreed level.
- Regular checks should be made to sequential numbering of entries to ensure that all payments have been entered into the petty cash book.

4.3.2.3 Cash Received

A receipt book should be maintained to record all monies received in cash. A copy of the receipt should be given to the person giving the cash and a counterfoil or carbon copy should remain in the book. The person receiving the cash should sign the receipt book before issuing a receipt. Cash received should be deposited into the bank.

4.3.2.4 Security of Cash and Bank Records

All books and documentation relating to the bank accounts should be kept in a secure location. Regular back ups should be taken of computerised accounting records.

Note: There is no need to duplicate a computerised cash book/petty cash book with a handwritten cash book/petty cash book, provided adequate back ups are taken.

4.4 EXPENDITURE

4.4.1 Authorisation Policies and Procedures

Authorisation policies are designed so that managers of appropriate seniority and experience are responsible for approving transactions carried out under the name of ActionAid International. Authorisation refers to the signing of a document to verify approval. The signature verifies that the signatory has read and reviewed the document and agreed to its content. Verbal approval is not sufficient for authorisation.

Authorisation of financial transactions ensures that employees of sufficient seniority are aware of their responsibilities in safeguarding ActionAid International's assets and helps guard against errors and irregularities.

Any officer of ActionAid International should not approve payments to themselves, nor to individuals to whom they report either directly or indirectly. Approval must come from a higher authority.

The authorisation procedures are tied into the budget-holder approval process. Individuals only approve expenditure under budgets for which they have authority. A budget-holder can delegate their authority only in exceptional circumstances and must then subsequently review all transactions.

4.4.2 Expenditure Classification

The Natural and Statutory cost classifications are used as part of standardised financial indicators to be incorporated into each country's financial reporting.

4.4.2.1 Natural Costs Classification

The purpose of the natural cost classification is to capture certain group of costs against their natural expense heading. Natural cost classification captures expenditure in its natural form and this is categorized into - grant and direct inputs to communities, staff, office, transport and travel, service and capital expenditure.

It is not a measure of efficiency or inefficiency in the same way that the Project, Support divide might be construed. However it is useful to track the natural cost classification over time as the changing nature of ActionAid's work develops.

This should be straightforward because SUN Accounts has been structured to enable costs to be easily reported in this format using the SUN defined account code structure.

4.4.2.2 Statutory Costs Classification

Statutory cost analysis requires the reclassification of expenditure into three categories – project, support and fundraising. Over the years a framework has been developed to ensure consistent inclusion, categorization and measurement of the items that should be classified into the three categories.

Project Costs

To measure ActionAid International's financial performance we need to be able to (a) assess the costs of the various inputs that ActionAid delivers and (b) how much it costs the agency as a whole to provide the infrastructure that enables us to deliver those inputs. This is the project/support cost split.

In light of AAI's long-term approach to development and the DA basis of most of our work, AAI's project costs can be considered to include the whole intervention from its inception to its final conclusion, encompassing the initial appraisal and planning process, the project management and execution and the M & E and Impact Assessment processes. All grants made to partners in pursuance of ActionAid's objectives are also classified as Project Costs.

Support Costs

In order to identify what elements of country programme, affiliate or associate expenditure fall outside the definition of project costs, support costs can be defined as all those costs connected with providing services which enhance the efficiency and effectiveness of the (country) programme rather than of its projects. These, therefore, include head office and DA finance, human resources, and the majority of office overheads. It is generally assumed that at the Head Office a significant proportion of costs will be support costs while at the DA level it will generally be a smaller amount.

Fundraising Costs

Fundraising costs include the full cost of the in-country sponsorship activities, the full costs of any other fundraising activity (whether successful or not) , a proportion of the costs of other staff that can be attributed to Fundraising (mainly Country Director) plus their share of office overhead.

Following a review of bases of cost classification adopted across country programmes the following have been agreed as standard ratios for classification of Head Office costs for financial reporting purposes.

FUNCTIONS								
	CD	**Finance**	**Audit**	**HR/OD**	**Info. Sys.**	**Prog. Support**	**Monitoring and Evaluation**	**Fund-Raising**
Project	20%	-	-	-	-	100%	100%	-
Support	70%	100%	100%	100%	100%	-	-	-
Fundraising	10%	-	-	-	-	-	-	100%
Variation allowed	+/- 20%	+/- 20%	-	+/- 20%	+/- 20%	-	-	-

Note: There may be genuine reasons why ratios outside these norms are required. These should be agreed with the Regional Finance Coordinator.

4.4.3 Procurement and Purchasing

All ActionAid offices should strive to ensure purchases deliver value-for-money, are cost-effective and support the values underpinning *Rights to End Poverty (R2EP).*

Procedures for supporting procurement and purchasing should be documented in the LPPM. Best Practice recommends the following controls and documentation are implemented, although local circumstances may dictate different procedures.

4.4.3.1 Controls and Documentation

Three quotations should be obtained for all purchases over a pre-set limit (established and documented by the local office but in no case over £5,000 in country programmes.) Credit arrangements should be reviewed regularly and new quotations should be obtained if the terms and conditions or quality become unacceptable. Details of all credit arrangements should be fully documented.

Some supplies may be required on a regular basis. In such cases, arrangements should be made with the supplier who can maintain a regular supply, with acceptable terms and conditions, at the cheapest price for goods of sufficient quality.

4.4.3.2 Procedures for the award of Procurement Contracts

Where there is a need to award procurement contracts, the contract shall be awarded to the tender offering the best value for money meaning the best price-quality ratio. This should be done in compliance with the principles of transparency and equal treatment for potential contractors and by avoiding conflicts of interest.

The Following guidelines for tender documents should be followed;

- The donor’s rules regarding the minimum number of bidders required should be followed at all times.
- Tender documents should be drafted in accordance with best international practice.
- A Committee should be set-up based on the necessary technical and administrative expertise to assess tenders.
- The evaluation of proposals should be based on exclusion, selection and award criteria that has been previously announced.
- All tenderers should be required to confirm in their proposals that their activities are free of exploitation of child labour.
- All tenderers should be required to confirm in their proposals that they respect basic social rights and working conditions.
- Tender documents should state that a proposal will be rejected or a contract cancelled if the tenderer or candidate has engaged in corrupt, fraudulent, collusive or coercive practices.
- Tender documentation should be kept for a minimum period of three years.

4.4.3.3 Overseas Procurement

The same accounting procedures should be followed as for local procurement.

Where procurement of major items (e.g. Vehicles, Computers and other equipment.) is required it may be necessary to look further afield than local manufacturers and/or retailers. A number of agents are able to source equipment on behalf of ActionAid.

The decision to procure locally or overseas should not be made on cost alone. ActionAid is committed to sustainable poverty eradication and as such it is appropriate to consider social impact indicators in the value for money decision. Supporting local industries/retailers (e.g. Women’s co-operatives etc.) may be an effective way of increasing the impact of resources in the fight against poverty.

4.4.3.4 International Payments

Goods procured internationally can be paid for through the ActionAid UK office, where necessary. The UK office will require signed confirmation from the designated authorised signatory on a payment request form (including a copy of the invoice) confirming that payment can be made. Until such time as e-mail allows secure coding, a signed authorisation to pay third party suppliers is required by the UK office.

4.4.3.5 Procuring Services

When procuring the services of consultants, the Global HR/OD framework should be followed. In all cases where services of consultants are to be negotiated, the following minimum guidelines should apply;

- There should be justification for procuring the services of a consultant
- Approval should be sought at the appropriate level of authority
- The selection criteria must be transparent and documented
- A clear terms of reference must be agreed with the consultant
- The initial advance to the consultant should not exceed 25% of the contract value
- Fee rates should be in line with agreed rates in the LFPPM
- A signed contract between the organisation and the consultant must be in place which clearly details the following;
  - duration of the contract
  - maximum contract value
  - payment arrangements
  - expected output and
  - monitoring and evaluation arrangements.

4.4.3.6 E-procurement

When goods are ordered through the internet the same levels of control in 4.4.3.1 above should operate. In addition, credit information and any other kind of sensitive information should not be sent via the internet. An appropriate division of duties among those permitted to order goods through the internet should also be enforced.

4.4.4 Employee Related Expenditure

4.4.4.1 Payroll Procedures

Close liaison between the payroll function and the Human Resources Manager is essential to ensure that employees' remuneration is accurate and paid on a timely basis. The Human Resources Manager must inform the payroll clerk of all new starters, leavers and changes to the standing data.

Information from the Human Resources Manager should be recorded by the payroll clerk in the payroll book (manual or computerised). The payroll book forms the basis of the monthly payroll calculation. Any variations in a particular month which affect the calculation should be documented on a variables form.

Local regulations concerning statutory deductions from salary must be adhered to and the appropriate remittances made to the authorities before the due date.

The payroll calculation should be reviewed and authorised by the Head of Finance or Head of Human Resources before any payments are made. All employees should be given a copy of their payslip. Employees should sign for any payments made in cash or by cheque on receipt.

4.4.4.2 Casual Employees

In order to control the employment of casual labour, only the HR Manager is authorised to hire casual employees on behalf of the organisation. The terms and conditions of the hire of casual labour should be fully documented in each case and should be in line with the local labour laws. Written notification of the need to hire casual employees should be provided to the Human Resources Manager. The Finance department should be notified of the appointments as soon as they are made.

4.4.4.3 Per Diems

Per diem rates to cover food, accommodation and travelling should be established for staff visiting other ActionAid offices. Employees should be informed of the rates applicable to them and of the procedures for accounting for per diems. The per diem rates should be reviewed by the Country Director at least once a year.

4.4.4.4 Medical Costs

ActionAid International staff in Country Programmes and Affiliates may receive the benefits of medical cover. Country Programmes with the guidance of the Regional Office should set appropriate levels of expenditure that provides reasonable coverage for medical and hospital costs for employees.

Where practical, an approved medical facility should be retained for use of AAI staff. Where this is not possible a list of approved hospitals/clinics should be compiled. The staff manual should in all cases specify the dependants who are covered by this benefit. Employees should be required to register the names, ages and other details of their dependants with the Human Resources Department upon recruitment.

Employees should only be reimbursed for the cost of medicines upon submission of a receipt and a copy of the prescription. Staff should not be reimbursed for medicines purchased from a pharmacy without a prescription issued by an approved doctor or medical officer. This requirement may however be waived for staff in field offices where access to medical personnel is restricted.

This benefit would only cover medical treatment in the country of employment and costs of dental treatment are not normally covered. The determination of whether medical expenses are within the terms of the policy remains the responsibility of the Country Director and International HR Manager as appropriate.

4.4.4.5 Expense Claims by Country Directors and International Directors

Country Directors' (CD) expenses must be authorised by Regional Directors (RD) whilst International Directors' expenses must be authorised by the Chief Executive.

Approval by the line manager is not always possible prior to expenditure being reimbursed when staff are based in different countries. However, approval should be sought retrospectively on a quarterly basis from a higher authority as follows;

	Officer	**Approval By**
1.	Country Director / Director	Regional Director or Chair of the Local Board
2.	International Director	Chief Executive
3.	Chief Executive	Chair of International Board

Notes:

The CD's expenses should be endorsed by the Head of Finance prior to reimbursement and on a quarterly basis, compiled and sent to the Regional Director for approval. Expenses in this regard include costs of domestic and international flights, hotel accommodation, housing and school fees for children (where applicable).

The Regional Director's expenses should be endorsed by the Regional Finance Coordinator prior to reimbursement and on a quarterly basis, compiled and sent to the Chief Executive for approval.

As a general rule expenses should be claimed within one month of being incurred.

4.4.4.6 Floats

It may be necessary to establish floats, in addition to the petty cash system, for personnel working away from their home office.

In order to monitor the level of floats, loans and advances, the HoF should review all outstanding balances on a quarterly basis to ensure that balances are not allowed to build up over time.

Any floats not accounted for within the established time limits should be reviewed with the employee and, if necessary, consideration should be given to recovering the float from the employee via the payroll.

To ensure that employees appreciate that overdue floats will be recovered from their salary, the float request form should include a section which requires the employee to sign agreement to such a recovery procedure.

4.4.4.7 Staff Loans and Advances

Loans may be advanced to employees who have had their appointment confirmed (i.e successfully completed the probationary period) for urgent personal needs. Repayments will be made from salary to include interest, which will be charged at rates agreed by the Country Programme, Affiliate, or the International Secretariat. The repayment period will not exceed two years or the remaining period of service, whichever is less. Such loans will be considered on the recommendation of the line manager and will, in each case, require specific written approval of the Country Director.

The terms for loans to international staff are set out in the International Terms and Conditions of Employment.

An advance of salary is defined as an amount of money, which will be paid back by deduction from salary in the same month as it was borrowed. Advances up to a maximum of one months salary may only be given when authorized by the employee's line manager and the Head of Finance.

ActionAid International provides an advance facility allowing international staff (staff paid through the Secretariat) to draw funds locally from ActionAid Country Programmes, Affiliates, Regional Offices or the Secretariat.

The staff loans and advances procedures should also include the steps to be taken when an employee leaves, to ensure that outstanding balances are deducted from terminal dues or otherwise recovered from the employee.

4.4.4.8 Hospitality

It is essential to ensure that on occasions when extension of hospitality is in the best interest of the organisation, funds are expended prudently and in a manner compatible with the use of donated funds. Hospitality expenses are defined as the provision of food, beverages, activities or events for the purpose of promoting and furthering the mission of the organisation. The following guidelines should apply;

- Hospitality is only allowable in administrative meetings directly concerned with the objects of the organisation, in which meals are an integral part and not supplied solely for personal convenience.
- As a general rule, hospitaility costs relating to staff visiting Country Programmes, Affiliates and the International Secretariat should be offset by the Per Diem payable to the employees.
- Feeding expenses incurred while on official travel should be reported and claimed as travel expenses for that trip. Staff who claim per diem are not entitled to claim additional expenses on hospitality.
- As a general rule alcoholic drinks must not be paid for from AAI funds during AAI events.

4.4.5 RELATED PARTY TRANSACTIONS

Disclosure in a note to the accounts is required where ActionAid enters into a related party transaction (Financial Reporting Standard 8). A related party transaction is one where ActionAid has a relationship with another party or parties which might inhibit it from pursuing its own separate interests. Only material transactions need to be disclosed. Related parties include;

i. a trustee or someone else who is related to the organisation; and

ii. someone who is either connected with a trustee or to a person who is related to the organisation

The following principles will apply in all Country Programmes and Affiliates;

a) A country programme shall not engage in partnership with any organisation or individual when a senior official of the ActionAid Programme is a relative of any of the Board members/management team members of that organisation or that individual. This may not apply in case of ActionAid or an ActionAid staff member being a part of a larger network/association like the Association of NGOs, CSOs and INGOs etc.

b) In appointing consultants, to avoid conflict of interest, an individual or organisation will not be appointed if they are connected to a member of the senior management of the country programme.

   However, this restriction will only apply to long-term / large consultancies of more than 10 days of work and or more than £1,000 fees in a year.

In exceptional situations where a contract with a related party is necessary, the following authorisation process will be applicable;

For Country Programmes

The Country Director will formally seek approval from the Regional Director

For Regional Offices

The relevant Regional Coordinator will seek formal approval from the Regional Director.

In the case of the Regional Director being involved then permission will be sought from the Chief Executive.

4.5 REMITTANCES

4.5.1 Remittances to Country Programmes

The majority of ActionAid International's income is raised from Funding Affiliates based in Europe. As such, it is necessary for the International Finance function to remit funds to country programmes and other affiliates fairly regularly. Remittances will be charged against the Reserves of country programmes held by ActionAid International. This will be done at the Sterling equivalent (where Remittance is received in US Dollars or Euros) based on the forward cover rate. Any exchange gains/losses are taken to income and credited to the restricted reserves of country programmes in proportion to the level of remittances at the end of each year.

Remittances from the International Finance function to other ActionAid country offices are processed through the standard remittance forms (R1, R2 and R3) available on the Intranet . These forms must be used for both budgeted remittances and emergency remittances.

A remittance request should be made in line with the remittance schedule (Table H) which is agreed between the country programme and the international finance function at the beginning of each year. Cash held should not exceed two weeks budgeted expenditure when a request is made. Unconfirmed income should be excluded from the remittance tables until it is confirmed, after which a revised remittance schedule can be submitted.

4.5.2 Remittances from Funding Affiliates to ActionAid International

Restricted funds raised by associates/affiliates for country programmes will be credited to the reserves of country programmes at the opening exchange rate for the month. Since remittances of such funds are made at pre-agreed dates and may discharge forward cover agreements, an exchange gain or loss may arise between the rate at which funds are credited to country programmes and the rate at which funds are actually converted to sterling. This exchange gain or loss is re-allocated at the end of each year to the reserves of the country programmes for which restricted income has been raised.

4.6 RECHARGES

Expenditure incurred on behalf of another Country Programme, Affiliate or the Secretariat can be recharged to the particular unit. Recharges (except from India and Italy) are processed through the Recharge (REC) journal in SUN. The procedures for this are detailed in the SUN procedure document produced by the SUN Development Project (SDP) and available on CD ROM in all country programmes.

As far as practical Heads of Finance should ensure that where expenditure is incurred on behalf of another ActionAid Country Programme, Affiliate or the Secretariat, the appropriate level of authorisation is obtained from the country office concerned.

4.7 ASSETS MANAGEMENT

4.7.1 Fixed Assets

Acquisition

Capitalization of assets takes place when the benefits of the expenditure are expected to extend over periods beyond the one in which the expenditure arises. Assets costing less than £5,000 should not be capitalized but should be recorded on an inventory for control purposes.

A plan for the acquisition of fixed assets should be incorporated into the annual budget. An authorisation policy should be established to ensure that only approved fixed assets are purchased.

Land and Buildings

It is ActionAid International's general policy not to own land and buildings. As such any expenditure on Land and Buildings must be approved, in advance, by the Regional Director and the International Director of Finance. Such approval will be subject to a comparative costing of purchase versus leasing. This should be done by taking the 'Net Present Value' of lease payments over 10 years, or the life of the asset, whichever is shorter. This should be compared with the purchase cost of the asset plus any additional costs arising from ownership, e.g. maintenance. No resale value should be assumed as in many cases the asset would not actually be sold by ActionAid and in the case of possible sale, a resale value would be hypothetical.

Motor Vehicles

The use of vehicles should be controlled to;

- minimize maintenance and running costs
- maintain staff safety and
- prevent misuse for private purposes

Vehicles should be prioritized for business purposes. Vehicles are often the most expensive assets purchased by ActionAid, so adequate control over the assets will have a positive financial impact on the organization.

All vehicles should have logbooks which record information about the vehicle. The driver/user must complete the following at the end of each journey or when fuel is purchased:

All private usage in unallocated vehicles should be approved in advance and be recorded in the logbook. It can then be recouped from the employee.

Fixed Asset Register

A register should be maintained to record all capitalised assets (over £5000 in value). The purposes of a fixed asset register are:

- to provide a means of controlling the assets including acquisition, disposal and transfer
- to enable accounting calculations to be performed of asset cost, depreciation and net book value.
- to allow assets to be checked regularly in order to avoid misuse or misappropriation.

The register should give details of each asset as follows:

- date of purchase
- description
- cost
- location
- asset number
- responsible official
- depreciation policy

It is appropriate to group classes of assets together in the fixed assets register for ease of reference.

When an asset is purchased it should be given a unique asset serial number which should be physically marked on the asset and held in the Fixed Asset Register and Asset Listing.

Asset Listing

A separate asset listing should be kept for all assets including those under £5,000 in value. The purpose is ;

- to provide a means of controlling the assets including acquisition, disposal and transfer and
- to allow assets to be checked regularly in order to avoid misuse or misappropriation

The asset listing should show similar details to the fixed asset register for each individual asset.

Verification

On a regular basis and at least once a year, each asset on the register should be inspected to confirm its existence, location, usefulness and condition. The verification exercise should be carried out by a person who is independent of the acquisition and maintenance of the assets. All assets which cannot be located must be thoroughly investigated and a full report submitted to the senior management team in the local office. Based on this report, management should authorise the asset to be written off if it has not been fully depreciated or already written off. Appropriate action should be taken by management to avoid future loss of assets. Assets in poor condition or which remain idle should be considered for disposal.

Donated Assets

Assets which have been donated to ActionAid should be valued and if greater than £5,000, capitalised in the accounts of ActionAid (credit income, debit fixed assets). If less than £5,000 the asset should still be recognized in the accounts (credit income, debit expenditure).

If, however, the donated asset has only a short term use for ActionAid, i.e. less than three years, prior to being handed either back to the donor or on to another party (such as a local NGO) then the asset should not be capitalised. Any expenditure on such assets should be charged directly to the Income and Expenditure account.

Disposal of Fixed Assets

On disposal of fixed assets whether by sale or scrapping, the difference between any sale price and the net book value of the asset should be taken to "Profit / Loss on Sale of Fixed Assets" in the Income and Expenditure account. The Fixed Asset account in the Balance Sheet should be credited with the original cost price and the Depreciation account debited with the depreciation to date.

Depreciation Policy

Depreciation is charged to the income and expenditure account in order to write off the cost of a fixed asset over its expected useful life. (See 2.6 for depreciation rates)

Special Circumstances

If there is a situation where assets may be required to be written off over a shorter period, the use of alternative depreciation rates is subject to approval by the International Finance Director. This is in order to ensure that there is consistent accounting treatment and explanations can be provided to the auditors of the consolidated accounts.

4.7.2 Debtors

Debtors balances are assets of the local office and should be controlled to ensure that they are recoverable. This will involve consideration of the risk involved when extending credit. Procedures should be implemented for the recovery of debts.

For many offices, the most significant debtor balances will be loans and advances made to staff. Examples of other debtors may be items such as deposits with suppliers or monies due from sales of any kind.

4.7.2.1 Recoverability

Consideration must be given however, to any material debtors when deciding whether debtor balances are recoverable (collectable). If it becomes doubtful that a debt will be recovered, it is prudent to consider making a provision against the debt. The extent of the provision is a matter of judgment. It will depend on a realistic assessment of how likely it is that the debt will be recovered, in what time frame and at what cost to the programme.

If a debt has a provision against it, that does not mean that no further effort should be made to collect the amount owed to ActionAid. The decision to continue in the collection effort should take into account the size of the debt and the costs of chasing it.

4.7.3 Prepayments

All payments in advance of the current period should be treated as prepayments.

Finance staff should ensure that invoices are verified to identify areas where prepayments may occur. Prepayments are considered a standard business practice for the following types of transactions; Memberships and Subscriptions, Rent, Insurance Premiums, Payment to Government Units and Required Deposits. Other prepayments may be acceptable only if it is cost beneficial. The location, reputation and other characteristics of the vendor should be taken into consideration when making prepayments as it could have a bearing on the ability to recover the payment if the vendor defaults in the delivery of the supply or service.

4.7.4 Stock

Stock represents those items which are purchased but not immediately used, and normally held centrally, either in the DA or elsewhere, until they are required. In relation to AAI's work Stock is often required only during emergency interventions.

All stock must be well controlled physically with secure and appropriate storage facilities and a documentation system to prevent deterioration and theft. Stores should be tidy so that stock is well maintained and that stock counts, including spot checks, can easily be made. (Please note that it is often not necessary or cost-effective to maintain detailed stock controls and records for stationery.)

Accounting treatment and valuation

For the purposes of the monthly management accounts of most country programmers, stocks need not be treated as assets, but can be expensed through the income and expenditure account. At the year end, remaining stock must be valued and recorded as a note to the Balance Sheet.

4.7.5 Information Assets

Security

The Head of Finance should take all reasonable steps to protect financial information from unauthorised access, loss, misuse and alteration.

Back ups are necessary to protect against data loss resulting from a disaster or accidental damage. Servers on which user documents are stored should be backed up to tape on a daily basis. Where the SUN system has a separate server, this should be backed up to tape separately on a daily basis. A further weekly back-up should be carried out and stored in a second location offsite (ideally secure and fireproof).

All accounting records should be kept safe and secure. As a general rule accounting records should be kept for the minimum period stipulated by the relevant legal authority. Where there are no specific legal requirements, records should be kept for a minimum period of six years.

4.8 RISK MANAGEMENT

The senior management of country programmes, affiliates, associates, regional offices, themes and functions should put in appropriate mechanisms for managing risks in their unit.

Each business unit (country programmes, affiliate, associate, regional office and function) is required to identify the risks to the achievement of their objectives in line with *Rights to End Poverty*. Current actions and policies used to manage the risks should also be identified and any further action plans should be determined.

On an annual basis the management actions identified in the previous year's risk assessment exercise should be reviewed to assess the effectiveness of actions taken in response to the identified risks.

All country programmes, affiliate, associates, regional offices, themes and functions should on an annual basis submit an updated risk register as part of their three year plans.

The risk register should be updated to include any new and emerging risks and further actions considered necessary to respond to any of the risks previously identified. The internal audit function at the Secretariat coordinates the global risk management process and local internal auditors are encouraged to manage the process at country programme level. (See Appendix III for a template of the Risk Matrix)

5 AUDIT

5.1 EXTERNAL AUDIT

A Statutory audit of the worldwide aggregated accounts will be carried out on an annual basis by the external auditors. Selected country programmes and affiliates are audited as part of the Statutory audit of ActionAid International.

Some country programmes will continue to have an annual external audit to satisfy local legal requirements or conditions set by official donors. The choice of external auditors for the local audit is at the discretion of country programmes and need not be KPMG (ActionAid International auditors).

Heads of Finance should ensure compliance with local laws and regulations regarding the conduct of external audits.

5.1.1 Audit Arrangements

All audit fees should be approved by the Country Director/ Head of Finance. Countries to be audited are agreed annually between the International Finance functions and the external auditors (currently KPMG) before approval by the Audit Committees of AAI and AAUK which are sitting together for the time being.

Audit arrangements are made directly between the Country Programmes and the local audit office, but the scope of the audit is laid down in Audit Instructions issued by KPMG's London office.

5.1.2 Timing /Formats for Accounts

The timing of the external audit should be agreed directly between the Country Programme and the local audit office, but must be consistent with the international audit timetable.

Standard formats for production of year-end accounts will be issued by the International Finance function each year. Accounts should be prepared in the required formats by Heads of Finance prior to commencement of the audit.

All external audit reports should be circulated to the AAI Head of Finance, Regional Director, Regional Finance Coordinator and International Head of Internal Audit within two weeks of issue.

5.2 INTERNAL AUDIT

The International audit function consists of the Head of Internal Audit and three internal auditors. The function is responsible for ensuring the economical, effective and efficient utilisation of charitable funds and the management of the organisation's approach to risk management.

The team undertakes a financial and operational audit of every country programme, affiliate, associate and regional office at least once every two years based on an annual workplan. In some cases, annual visits may be necessary. The timing of audits and terms of reference will be agreed with the Country Director and Head of Finance or Head of department/division prior to the commencement of the audit. This should include items requested by the country programme, regional office or International Directors, if appropriate.

Most medium to large country programmes also have a local internal audit function reporting to the country management team and the international head of internal audit.

5.2.1 Country Programme Internal Audit Function

There are a number of country programmes with a local internal audit function. The scope of the local auditors includes all financial and management controls including risk management.

It is recommended that country programmes with an annual income of £1.5 million or over should strongly consider the need for an internal audit function.

5.2.1.1 Independence

The internal audit function should be sufficiently independent of the activities of the country programme. Internal auditors should have no executive responsibilities. Individual auditors should have an impartial, unbiased attitude and an objective approach to work. They should at all costs avoid conflicts of interest.

5.2.1.2 Scope of Work

1. Internal audit should review policies, procedures and operations in place to;

   - ensure the economical, effective and efficient use of resources
   - safeguard the organisation's assets
   - ensure compliance with established policies, procedures, laws and regulations
   - ensure that partner organisations are adequately delivering their objectives

2. Internal audit should coordinate and review risk management at the country programme. In conjunction with the Country Management Team, the internal auditor should develop the country programme's risk register using the matrix in Appendix III of this document.

5.2.1.3 Audit Planning

A risk-based annual internal audit plan should be prepared by the internal auditor and approved by the Country Management Team before the beginning of a new operational year. The plan should cover all auditable units within the country programme including country office departments, regional offices, development areas and partner organisations.

5.2.1.4 Reporting

The country programme internal auditor should report regularly to the Country Director and Audit Committee (where applicable) on the control environment and progress against internal audit plan. The internal auditor should produce regular reports to senior management and the Head of Audit.

As a minimum, the following reports should be prepared by the internal auditor;

For Country Management Team

1. Reports on all audits conducted, incorporating full management responses

2. Quarterly report summarising key audit issues

For Country Management Team and International Head of Audit

1.	Six Monthly Report on Internal Audit Issues	April and October
2.	Annual Report on Internal Audit Activity	March
3.	Annual Report on fraud and irregularities	April
4.	Annual Risk Management Report and Matrix	September/October

5.3 AUDIT COMMITTEES

5.3.1 Audit Committee of the International Board

The Audit Committee of the International Board of Trustees is made up of three members of the Board. The Committee meets twice a year and for the time being sits jointly with the AAUK Audit Committee.

Representatives of ActionAid International management and the external auditors attend Audit Committee meetings. A Terms of Reference guides the work of the Audit Committees.

5.3.2 Country Programme Audit Committees

All Country Programmes, Affiliates and Associates should set-up an Audit Committee comprising three members of the Board of Trustees/Local Advisory Board and selected members of senior management, including the Country Director and Head of Finance. The Internal Auditor or Head of Finance should act as Secretary of the Committee.

The Committee should meet at least twice a year to review internal audit findings and the overall control environment.

6 FRAUD AND OTHER IRREGULARITIES

6.1 POLICY

Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud and other irregularities include illegal acts such as theft, deception, manipulation of accounting entries, bribery and corruption.

ActionAid International's financial integrity and reputation is to be preserved and financial losses due to fraud and irregularities are to be **minimised**.

Management should also make it clear through the staff policies and procedures manual or staff contracts, that fraud will not be tolerated and that the organisation's policy is to prosecute all perpetrators.

AAI requires that major frauds be reported to the police.

6.2 REPORTING PROCEDURE

Where cases of suspected fraud, or irregularities, are discovered in an ActionAid International operation, these must be promptly reported to the most senior management in the operation who should conduct an appropriate form of investigation.

i Every investigation should result in a written report. In this report, management must disclose full details of their findings.

ii Significant cases of fraud (i.e.> £1,000) must be reported to the Regional Office and the International Head of Internal Audit immediately. Otherwise all incidents, whatever their level of materiality must be reported at the end of the financial year in an annual statement to the internal audit department at the Secretariat. This department is in the best position to gather and assimilate information on the occurrence of frauds in ActionAid and to then inform the Manangement and Audit Committee as required.

This requirement extends to all global operations.

6.3 FRAUD INVESTIGATION

The Country Director has the primary responsibility for the investigation of all suspected fraudulent acts at country level. If the investigation concludes that fraudulent activities have occurred, the Director will issue reports to ;

- The Senior Management Team and
- The International Head of Audit

A fraud investigation should be initiated to determine the extent of the fraud, establish how it was carried out so that safeguards can be put in place to prevent reoccurrence, and to identify the perpetrator.

The knowledge that fraud has been uncovered should be limited to a very few key personnel. This will increase the likelihood of full and unbiased information emerging, and prevent the untimely departure of the suspected perpetrator(s), destruction of evidence and accusations of slander.

There are four issues to be addressed in the investigation :-

- Whether any criminal prosecution is likely or desired and how the investigation should proceed such that this end is not compromised. Local circumstances may dictate when the police are to be involved.

- The recovery of losses incurred by ActionAid by taking action through the courts

- If and how to dismiss employees in order to minimise the knock on effect of that action

- What action is to be taken to prevent reoccurrence of the fraud.

6.4 TIMETABLE FOR REPORTING ON FRAUD

Dealing effectively with suspected fraud involves prompt action. Whilst it is not possible to define a rigid timetable to be followed for all fraud investigations, there are clearly certain standards for swift action that should be achieved. The following minimum time frame has therefore been established. In many cases straightforward fraud should be resolved in a much shorter time frame.

	Day
Fraud or suspected fraud identified	0
Notification to senior management	within 3 days
Initiation of fraud investigation	within 10 days
Verbal findings of fraud investigation to senior management	within 20 days
Written report on investigation	within 30 days
Management action	within 60 days
Implementation of receommendation to prevent repeat of fraud	within 180 days

6.5 FRAUD AT PARTNER ORGANISATIONS

Incidents of fraud by partner organisations need to be dealt with on a case-by-case basis. However, the following basic good practice guidelines can be followed in almost all cases;

- Report the matter to the CP internal auditor, Head of Finance and the Country Director
- Suspend further funding to the Partner as soon as fraud is established until the matter has been resolved to AAI's satisfaction
- Carry out an investigation as appropriate either independently or with partner staff.
- Demand that the organization takes appropriate action against the perpetrators
- Make efforts to recover the money that has been mis-appropriated.
- Re-assess the relationship with the partner organization and terminate if it cannot be salvaged
- If the relationship is to continue, ensure that sufficient action has been taken to address control weaknesses that allowed the fraud to occur. This may involve building the capacity of the partner organization

6.6 WHISTLE-BLOWING

There may be occasions where staff members feel that financial or procedural malpractice is taking place. If the member of staff has a genuine concern over the actions of a colleague or a partner organisation, then the matter should be raised with:

- Country Director and Head of Finance in country programmes, affiliates and associates

- Regional Director and Regional Finance Co-ordinator where there is a concern over a member of the senior management team in country programmes or a member of the regional office staff

- International Finance and Organisational Effectiveness Directors where there is a concern over a member of the senior management team in the International Secretariat

- Chair of the Board of Trustees and Honorary Treasurer where there is a concern over an International Director.

Where the member of staff feels that their own position might be jeopardised if they were to raise a concern in this way, such concerns should be raised with the Head of Internal Audit at the Secretariat who would make a record of its receipt, conduct an investigation and report to higher authority as appropriate.

Any personal interest should be made known when first raising concerns. No disciplinary action will be taken against a member of staff raising the concern unless there is evidence that the allegations were both false and malicious.

6.7 MONEY LAUNDERING

The word 'Laundering' is used to describe how illegal (or dirty) money is made to look legal (or clean). The perpetrator finds a way to put the dirty money through a reputable party and then gets the money back. This process of making illegally generated money appear legal is Money Laundering.

The term Money Laundering is also used for a number of offences involving the proceeds of crime or terrorist funds. It includes possessing, or in any way dealing with, or concealing, the proceeds of any crime. Charities can be especially susceptible to the attentions of potential money launderers.

6.7.1 Obligations of all staff

- Report any suspicious money laundering activity to the Country Director or appropriate member of senior management (as in Section 6.2 above)
- Not to assist in the money laundering process through acquiring, concealing, disguising, retaining or using the proceeds of crime
- Not to prejudice an ongoing investigation
- Not to contact any person who has been suspected of, and reported for, possible money laundering in such a way as to make them aware of the suspicion or report ("tipping off")

6.7.2 Reporting Procedure

As in 6.2

7 WORKING WITH PARTNERS

7.1 INTRODUCTION

Partners can be defined for these purposes as organisations with which ActionAid has a funding relationship for the purpose of achieving ActionAid's strategic goals. The organisation could be a government body, a registered NGO, or a Community Based Organisation or other grouping of individuals or organisations. In some cases a partner could be a single individual with campaigning or policy expertise, for example.

All country programmes, affiliates and associates should facilitate the efficient working with Partner organisations in the delivery of organisational objectives. Finance functions should ensure transparency, accountability and mutual respect in their dealings with Partners.

7.2 SELECTION OF LONG-TERM PARTNERS

During the selection process of a partner, a review should be carried out of the Partner's financial and administrative systems with a view to ActionAid satisfying itself as to the proposed Partner's financial integrity or, at least, becoming aware of the financial risks of entering into a relationship with the proposed partner. Subject to local context, this review should cover:

- legal status and governance
- latest management accounts and statutory accounts
- audit arrangements including previous audit opinions
- procedures for authorisation, payments, procurement, budgeting and reporting; and banking facilities
- accounting system and books of accounts, e.g. cash book
- other funders and their reporting requirements
- competence of finance staff & senior management

7.3 AGREEMENTS WITH PARTNERS

A contract should be drawn up with a partner before large scale funding starts or long-term commitments are made. The Head of Finance should review the contract before it is finalised.

The contract should be signed and dated by the ActionAid Country Director and the Chairperson of the Board of Trustees, or equivalent, of the Partner. It is also acceptable for agreements to be signed by senior country programme staff, provided the delegation of the Country Director's authority is recorded in writing.

The contract should include the following:

- An indication of the funding to be made available over the period, provided all conditions are met.

- Timetable and content for reports and budgets.

- ActionAid's internal and external auditors' right of access to all books of records and financial documents held by the partner, including those relating to other funders.

- Requirement for annual audit by external auditors or ActionAid's internal audit

- The contract could also specify the requirement for the partner to maintain a separate bank account for ActionAid funds, in cases where its systems were weak, at least until such time as, with ActionAid's help, its financial management capacity has been sufficiently improved to make that requirement unnecessary.

- The consequences of financial misappropriation or expenditure on different activities from those planned. The consequences could include suspension of remittances, termination of agreement and or repayment of grants.

7.4 BUDGETING AND REMITTANCES

The partner should prepare a budget for activities for the following period in consultation with ActionAid and local stakeholders. This period need not coincide with ActionAid's financial year.

As part of the budget process a schedule of remittances should be drawn up for the following period. The cash balances held by the partner should not exceed 3 months' expenditure, to minimise the risk of exchange losses and misappropriation of funds. A system of remittance request (including a note of the cash balances held), confirmation of payment and confirmation of receipt should be implemented. Remittances should be made by cheque or direct bank transfer.

Cash remittances should be used only where banking facilities are not available. Remittances should be in the local currency rather than USD, GBP or Euro to ensure that ActionAid retains control and bears the risk for exchange rate gains/losses.

7.5 REPORTING AND MONITORING

The partner should provide the following reports as a minimum:

- Annual statement of income and expenditure
- Annual and six-monthly expenditure variance report with narrative
- Year-end balance sheet and six-monthly statement of cash and bank reserves.
- In the case of multi-funded partners, each of these reports should include a separate analysis of ActionAid's funding and expenditure against it.

The Head of Finance should monitor these reports and feed back to the Partner as necessary.

There should be regular visits (minimum six-monthly) to the Partner's offices and relevant communities to confirm that work is proceeding to plan, that funds are being utilised for the stated purposes and to identify the partner's capacity building needs.

Regular meetings should be held, at least annually, with the Partner and other donors to share experience and agree on reporting and budgeting formats, which satisfy the different donors' requirements.

7.6 ACCOUNTING TREATMENT OF PAYMENTS TO PARTNERS

All payments to Partners, including CBOs, should be treated as Grants, which are classified as Project Costs in ActionAid's official accounts.

If grants are paid at the end of one period to be spent in the following period, the grant should be treated as a prepayment in the accounts of ActionAid. Where grants are released for expenditure in the current financial year these grants should be fully expensed in the accounts, irrespective of unspent balances held by the partner at the year end.

7.7 ANALYSIS OF PARTNER COSTS

The increasing trend in working with Partners calls for a firmer framework for reporting and analying grants to and spend by Partners.

All country programmes, affiliates or associates should take reasonable steps to ensure that Partner Support Costs are efficiently managed.

As a minimum, a full analysis of Partner costs should be carried out using Natural Cost Classification, in case of partner managed DA/DIs or where annual Grants to Partners exceed £10,000 or equivalent.

Analysis of grants to partners can be done either in SUN, on excel spreadsheet or on other system that will enable consolidation and reporting on these grants. The summary of grants to partners using the natural cost classification and statutory cost analysis should be consolidated, analyzed and included as part of all quarterly management reports.

8 ACCOUNTABILITY LEARNING AND PLANNING SYSTEM (*ALPS*)

ALPS is a framework that sets out the core requirements and key accountability procedures and processes for ActionAid International at all levels. These core requirements include appraisals, strategies, strategic plans, reviews, operational plans and budgets, learning reports and participatory review and reflection processes.

8.1 RESPONSIVE ACCOUNTABILITY TO THE POOR AND OUR PARTNERS

ALPS strengthens ActionAid International's main accountability, which is to the poor and excluded people that we and our Partners work with.

In the true spirit of downward accountability, the finance department should be transparent in sharing financial information with Partners and Communities we work with. This is also in line with the Open Information Policy.

8.2 MAIN ALPS REQUIREMENTS

8.2.1 Appraisals

Appraisals are required for new initiatives, campaigns, new countries and new programmes (DA/DI). Finance staff are required to participate in the appraisals process for new programmes.

8.2.2 Country Strategy

Finance staff should be involved in the preparation of the Country Strategy and in developing the terms of reference and methodology of the finance element of the review of the strategy.

Country Programmes, Affiliates and Associates should carry out a review of the country programme in the last year of the strategy period to assess performance and results against the country strategy and beyond, and to use the learning to improve future work.

Heads of Finance should be involved in the development of the Country Strategy Paper (CSP) and in conjunction with Country Directors, should ensure that an independent review of Finance forms part of the CSP review. A clear terms of reference should be set out and agreed with senior management for this purpose.

8.2.3 Operational Plan and Budgets

See 4.1.1

8.2.4 Annual Review and Learning Report

The Annual Review and Learning Report is now required for AAI Global, Themes, Functions, Regions, Affiliates, Associates and Country Programmes. Finance functions should ensure that a summary Annual Finance Report is included in the appendices.

8.2.5 Participatory Review and Reflection Process (PRRP)

A participatory review and reflection exercise should be carried out by Country Programmes, Affiliates, Associates, Thematic groups and Functions at least once annually to increase accountability to the poor and to Partners. The exercise should be carried out with stakeholder groups to learn and share learnings (achievements and failures) to increase responsiveness and quality of ongoing work.

9 COUNTRY PROGRAMME OPERATIONAL FINANCE MANUALS

9.1 PRINCIPLE

As noted in the introduction (section 1) this financial framework does not list the detailed operational control arrangements that each Country Programme is expected to have in place. A specimen Financial Policies and Procedures Manual (FPPM) will be made available on the global intranet.

It is therefore important that each ActionAid Country Programme, Affiliate or the Secretariat produces and documents its own Financial Policy and Procedures and add these as an addendum to this document.

Each local office should ensure that it has carefully considered the financial control procedures necessary in its own operating environment and that these procedures have been introduced and are effective. All local detailed policies however must adhere to the standards, policies and procedures stated in this financial management framework.

In the case that the local legal requirements differ from the standard set in this framework, the HoF should inform the Regional Finance Coordinator or the International Finance Director (where appropriate) and ensure the local policies and procedures are in line with local legal requirements.

9.2 REVIEW AND FINAISATION

Local procedures (or amendments to them) should be reviewed at least annually by the Head of Finance in order both to ensure overall compliance with the ActionAid International Financial Management Framework and to improve local control.

9.3 CONTENT

As a minimum, local Finance procedures should cover the following headings:

- Bank/Cash Procedures
- Purchasing / Procurement Procedure
- Fixed Assets/Other Assets Management
- Personnel Issues
- Financial and Management Reporting
- Working with Partners
- ALPS Processes

APPENDIX I AFMF SUMMARY OF STANDARDS

The following are a set of minimum standards which ActionAid International Country Programmes, Affiliates, Associates and the Secretariat are required to follow in the conduct of their activities. It is expected that the Finance functions across the organisation will promote full understanding and compliance with both the ActionAid Financial Management Framework (AFMF) and the local Financial Policies and Procedures Manual (FPPM).

The internal audit functions (local and international) will monitor compliance with this International Framework.

1. Operational Finance Manuals (Ref 1.1)

1.1. Each ActionAid Country Programme, Affiliate, Associate or the Secretariat should document its own Financial Policy and Procedures and ensure that they are effective and are being followed.

2. Reserves held in local offices (Ref. 2.1)

2.1 Country Programmes, Associates and Affiliates should manage their reserves in a way that preserves the viability of the organisation and enables the organisation to meet its legal objects.

2.2 Each Country Programme, Affiliate or Associate which benefits from committed giving income should aim to maintain total reserves of not less than one sixth and not more than one third of its total planned expenditure for the following year. Reserve levels should however not be allowed to exceed a maximum of four months of total planned expenditure.

3. Expenditure (Ref. 2.3 and 4.4)

3.1 All expenditure of the organisation must be consistent with the intention of the donor(s) and the mission of the organisation.

3.2 No officer of ActionAid International should approve payments to themselves, nor to individuals to whom they report either directly or indirectly. Approval must come from a higher authority.

3.3 Where there is a need for Procurement of goods or services, the tender/quotation offering the best value in terms of price and quality should be selected.

4. Planning and Budgetary Principles (Ref. 4.1)

4.1 Each Country Programme, Affiliate, Associate, Function, Thematic Group or the Secretariat is required to produce a three-year plan along the principles of ALPS (Accountability Learning and Planning System) making clear how resources are to be allocated and how planned activities contribute to strategic objectives.

4.2 The budget should be completed and loaded onto the local accounting system before the commencement of the budget year and budgeted income, expenditure and year-end reserves should be within 3% of the approved plan.

5. Financial Reporting (Ref. 4.2)

5.1 An annual finance report is required from every ActionAid Country Programme, Associate, Affiliate and Regional Office to help in assessing the financial performance of the organisation.

5.2 All Country Programmes, Affiliates and Associates are requested to ensure that financial reporting (internal and external) is done on a basis that can be externally audited and in ways which give a clear understanding of how funds have been expended.

5.3 Annual Statutory returns should be prepared in line with the guidelines issued by the International Finance Function.

5.4 Monthly and Quarterly Management Accounts should be prepared in a user friendly manner and made available to all budget holders within three weeks of the month end and within four weeks of the end of each quarter respectively.

5.5 Management Accounts should be designed to inform on the key thematic areas of the country programme's work

6. Donor-Funded Projects (Ref. 4.2)

6.1 The finance department should support the donor reporting process by generating donor reports from the accounting system in the format requested by the donor.

6.2 Income, expenditure and fund balances for each donor must be tracked on a monthly basis.

6.3 Where the reserves of a country programme are inadequate to underwrite a pre-funding contract, express permission should be sought from the International Director of Finance before the contract is agreed with the donor.

6.4 Every country programme, affiliate or associate should take responsibility for uploading key information on donor-funded projects onto the Contract Management System.

7. Cash and Bank Operations (Ref.4.3)

7.1 Finance functions across ActionAid International should ensure proper and consistent cash and cheque handling procedures, which prevents the loss, theft or mis-appropriation of funds entrusted with the organisation.

7.2 All bank accounts should be reconciled within one week of receipt of bank statements (not later than three weeks from month end).

7.3 The maximum local currency cash and bank balances in-country (excluding funds held by partner organisations) should not exceed the equivalent of 6 weeks expenditure in-country.

8. Risk Management. (Ref. 4.8)

8.1 The senior management of affiliates and country programmes should put in appropriate mechanisms for managing risks in their organisation.

8.2 All country programmes, affiliate, associates, regional office, function or theme should on an annual basis submit an updated risk register as part of their three year plans.

9. Audit (Ref. 5.2)

9.1 Heads of Finance should ensure compliance with local laws and regulations regarding the conduct of external audits.

9.2 All external audit reports should be circulated to the regional director, regional finance coordinator and international head of audit.

9.3 Country Programmes, Affiliates and Associates should ensure that all internal and external audit recommendations are implemented within six months of the issue of the audit report.

9.4 Where the annual income of a Country Programme exceeds £1.5 million, the country management team should consider the recruitment of an internal auditor where non already exists.

10. Working with Partners (Ref. 7.7)

10.1 All country programmes, affiliates and associates should facilitate the efficient working with Partner organisations in the delivery of organisational objectives. Finance functions should ensure transparency, accountability and mutual respect in their dealings with Partners.

10.2 All country programmes, affiliates or associates should take reasonable steps to ensure that Partner Support Costs are efficiently managed.

10.3 A full analysis of Partner costs should be carried out using Natural Cost Classification, in case of partner managed DA/DIs or where annual Grants to Partners exceed £10,000 or equivalent.

11. Accountability Learning and Planning Systems ALPS (Ref. 8.1)

11.1 In the true spirit of downward accountability, the finance department should be transparent in sharing financial information with our Partners and Communities we work with. This is also in line with the Open Information Policy.

11.2 Heads of Finance should be involved in the development of the Country Strategy Paper (CSP) and in conjunction with Country Directors should ensure that an independent review of Finance forms part of the CSP review. A clear terms of reference should be set out and agreed with senior management for this purpose.

APPENDIX II HEAD OF FINANCE INDUCTION CHECKLIST

Induction Category	Areas to Cover	Date Completed and Signature
The Organisation and its Structure	**<u>First 3 Months</u>** Briefing on overall ActionAid International Structure Briefing on Country Management Structure Meet Key Staff in Country and Country Management Team One to One Induction with Management Colleagues covering; **Programmes, Working with Partners, Sponsorship, Monitoring and Evaluation, ALPS and Impact Assessment** Understand AAI Governance Structure	
Mission, Vision and Values	**<u>First 3 Months</u>** Read AAI Mission, Vision and Values Statements Read Country Strategy Paper Read ALPS document **<u>3 – 6 Months</u>** Read AA International Strategy Read Regional Strategic Plan Read Thematic Strategy Documents	
Policies and Procedures	**<u>First 3 Months</u>** Review Local Financial policies and Procedures Manual (LPPM) Read AFMF **<u>3 – 6 Months</u>** Read Global HR Policy Read Country HR Policy Read Administrative Procedures Manual Open Information Policy	
Financial and Management Report	**<u>First 3 Months</u>** Understand basis of preparation of Country Management Accounts Read AFMF to understand; - Funding management systems including different Fund types and confirmed/unconfirmed Income & Expenditure - Reserves Policy - Remmitance Procedure - Recharges - International Reporting Requirements - Exchange Rate Policy - PROBALS, FATS and SLIMS **<u>3-6 Months</u>** Complete ActionAid International Financial Management Framework (AFMF)	

Induction Category	Areas to Cover	Date Completed and Signature
	Attend Induction at Regional Office covering; - Basis of Preparation of CP annual budget - New DA/DI Appraisal and Approval process - Financial projections - Annual 3 year plan guidelines/tables - Statutory Returns process - Donor reporting Read International Finance Strategic Plan	
Banking	**<u>First 3 Months</u>** Understand local banking requirements	
Local Legislative Requirements	**<u>First 3 Months</u>** Understand in-country taxation laws, foreign currency regulations and related legislation	
Risk Management and Audit	**<u>First 3 Months</u>** Review findings of most recent internal audit Review findings of most recent external audit Meet with Internal auditor to discuss audit issues Review Current Risk Matrix **<u>3 – 6 Months</u>** Understand International Internal Audit Framework Undertake one audit with local internal auditor Read AAI international audit manual	
SUN System	**<u>First 3 Months</u>** Understand SUN Basics Read Training Manuals on SUN Understand Back-up system for SUN **<u>3 – 6 Months</u>** Undergo formal SUN Training	
Field Visit	**<u>3 – 6 Months</u>** Visit DA Visit regional office in-country Visit major Partner organisation	

APPENDIX III RISK MANAGEMENT : GUIDANCE NOTES FOR COMPLETION OF THE RISK MATRIX

The identification of risks is an integral part of the planning process. The International Directors and Trustees will need to be aware of risks in all AAI operations and how they are being managed in order for them to approve the 3-year plans in an informed manner. Risk management covers much more than only financial risks, so there should be broad involvement of managers and staff in the process.

It is anticipated that the compilation of the risk matrix would be done by internal auditors in country programmes (where applicable) in full consultation with the senior management team.

The Process would ideally involve;

1. Review and Reflection
Examine key developments during the course of the previous year and review the role played by existing risk management strategies in responding to risks. This should help to inform the process for the next year.

2. Strategic Objectives (Section A)
List the strategic objectives of the Country Programme, Regional Office or Department as detailed in the CSP or strategic plan.

3. Identifying potential threats to achieving the strategic objectives (Section B)
This can be done by brainstorming, workshops with employees and dialogues with stakeholders. This should include risks at all levels and not just existing risks but emerging risk as well – those which do not currently impact on the organisation but will do in future.

4. Evaluating the potential impact of the risks identified (Section C)
The potential impact of risks can be analysed by considering the significance of the risk. This should enable the development of a prioritised risk analysis. A consistent approach should be adopted, for example estimating a worst-case scenario over say a 12 month period.

5. Evaluating the probability of occurrence (Section D)
Analysing the probability that the risk will materialise

6. Reviewing what strategies are already in place to manage the risk (Section E)
For each risk identified, a note should be made of what is already being done to address the risk. There needs to be an assessment of whether those actions minimise the likelihood of occurrence and / or reduce the impact of risk.

7. Risk Owner (Section F)
A manager should be identified as the risk owner for each identified risk – who is responsible for co-ordinating the response to the risk.

8. Drawing up action plans if existing strategies are considered inadequate (Section G)
The challenge here is to find the appropriate responses which combine to form a coherent, integrated strategy, such that the net remaining risk is within the acceptable level of exposure. The implementation of the action plan is reviewed by internal audit as part of its normal activities.

Pro - Forma – Risk Matrix

Risk				Risk Management Strategy		
Strategic Objective (A)	**Risks identified (B)**	**Impact (C)**	**Probability (D)**	**Current Action / Policies (E)**	**Risk Owner (F)**	**Action Plan (G)**
		High/Med/Low	High/Med/Low			