

FINANCIAL AND ACCOUNTS MANUAL



LHAK - SAM

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Section 1: Accounting policies

Accounting convention

The accounts of Lhak-sam shall be prepared under the historical cost convention. The day-to-day transactions shall be recorded at the monetary value of the goods or services or fair market value of the donated services.

Income

Income represents grants from donor, members' subscriptions and interest received from bank deposits and on investments. Grants, cash donations and interest received from bank deposits and investments will be recognized as income in the period in which they are received.

Expenditure

Expenditure represents expenses incurred directly for programme activities. These will be recognized when payments are made (ie, when cheque or cash is disbursed or paid).

Taxation

No provision is made for taxation payable as it is expected that Lhak-sam will be properly registered, and therefore, be exempted from any taxation.

Currency of account

The accounts of Lhak-sam shall be created to reflect the budget line items of the approved programme budget. In addition, the accounts shall be recorded in Ngultrum as well as in the currency of the grant.

Main office/local offices

Where Lhak-sam has multiple projects or field offices as part of one grant, district bank accounts shall be introduced. The main office in Thimphu shall bear overall responsibility for distribution of funds to local offices or projects. The transfer of funds to the district office shall be made according to the programme budget, project milestones and shall be sufficient to meet the project requirements. The main office shall monitor and ensure proper expenditure accountability by the district office. In addition, the main office shall also consolidate expenses incurred at the local office level for reporting purposes

Section 2: Summary of Procedures

2.1 Purpose and objectives of Lhak-sam's accounting system

The objectives of Lhak-sam's accounting system are to:

- Record and classify all transactions accurately and completely
- Maintain a complete record of all:
 - **Revenue** received
 - **Expenditure** incurred
 - **Assets** owned
 - **Liabilities** due to third parties
- Report to donors on all required financial information

2.2 Process descriptions

General ledger: Post monthly transactions of revenue, grants received, expenditure on project activity and other transactions relating to assets and liabilities.

Preparation of accounts

Cash books: Record transactions on the grant recipient bank accounts and record receipts of petty cash from the bank and petty cash expenditure.

Budget and Expenditure Record budget and actual expenditure by budget code on a monthly and cumulative basis.

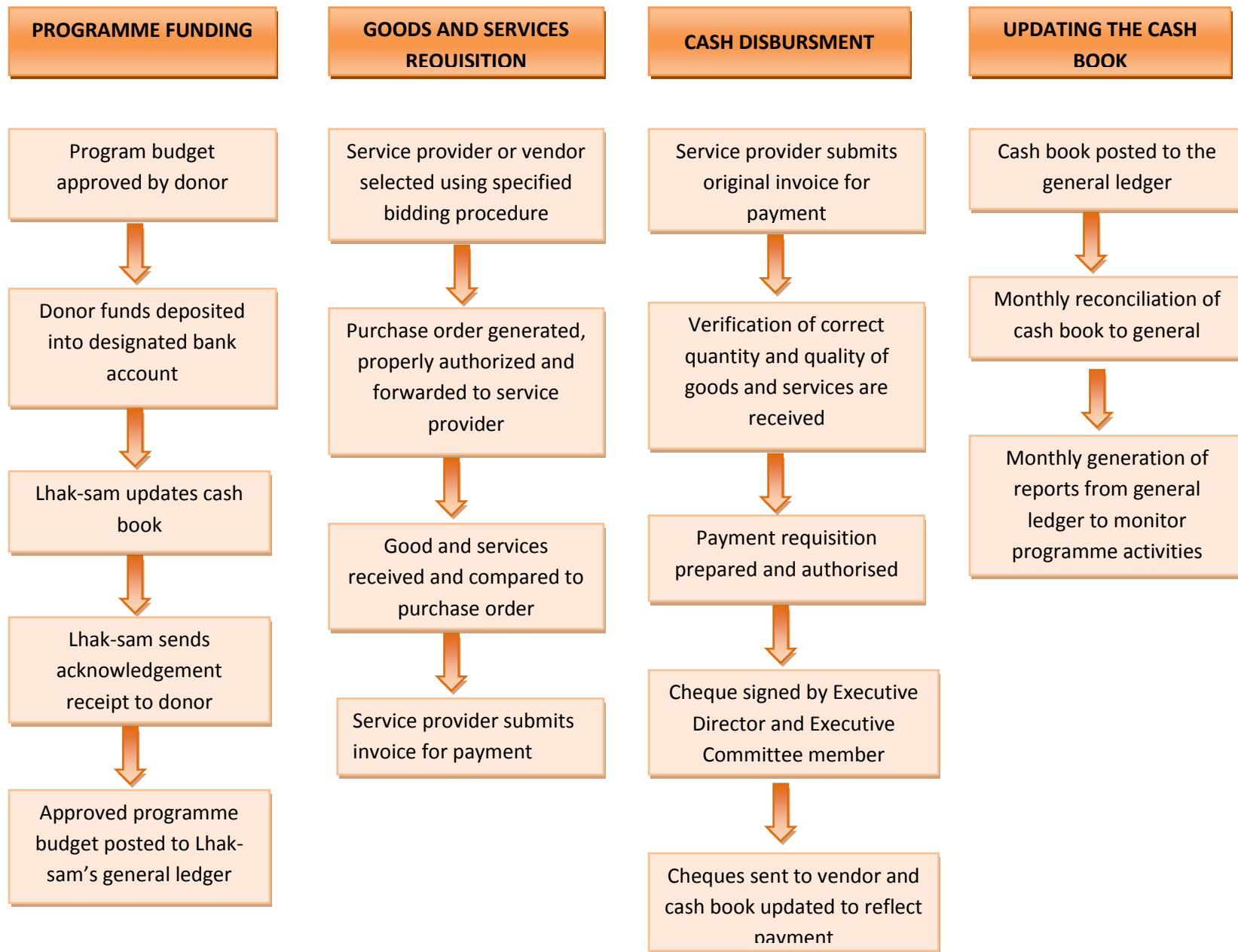
Fixed assets: Maintain manual records of all assets.

Travel: Record transactions relating to travel.

Procurement: Record transactions relating to procurement of goods and services.

Payroll: Record transactions relating to compensation of employees (eg, salaries, gratuities and incentives).

Reporting: Prepare monthly, quarterly and/or annual reports.



2.3 General ledger procedures

The General Ledger Accounting System is designed to improve the timeliness and quality of information available to the Lhak-sam management. Financial information includes information on assets, liabilities, revenue, funding and expenses. The Accounts/Finance Officer is responsible for producing all final general ledger outputs. Among the principal responsibilities are:

- Receipt and coding of all source information into the general ledger
- Verification and input of the information related to expenses, budget, funding, revenue, assets and liabilities
- Production and distribution of general ledger reports to budget holders and other interested parties

The source of data for the general ledger system is the other sub-systems: budgeting, fixed assets, cash and payroll systems. This data shall be used in the preparation of management and financial reports.

The general ledger shall have separate accounts for each budget line for each of the donors. Donor specific financial statements shall be made whenever requested and should be reflected in the annual report.

The monthly postings to the general ledger will be cash based.

2.4 General ledger procedures

This consists of the following activities:

Monthly

- Record expenditure by project activities
- Record other payments not relating to projects
- Record grants and other income received during the month.
- Extract monthly **trial balance**
- Identify and record (pass) **journal entries** for accrued charges and prepayments (if required)
- Prepare end of year **trial balance**
- Reverse year-end accruals after close of financial year. (Required to avoid overstatement of expenses)

Section 3: Cash management and disbursements

The purpose of cash procedures is to ensure that:

- All cash/cheques received must be deposited intact in Lhak-sam's bank account maintained with Druk-Punjab National Bank. A singly account will be maintained however separate cost code within the general ledger shall be maintained for different donors
- The accounts/finance officer will be responsible for handling the cash/cheques and that of recording under the authorization of the executive Director of Lhak-sam.
- All cash transactions shall be properly captured by the general ledger system
- All payments shall be properly verified and approved by the Executive Director prior to payment. All cheques shall be signed jointly by the Executive Director and one member from the executive Committee, nominated from among its members. This member shall be responsible for co-signing all payments on behalf of Lhak-sam and membership must be rotated on an annual basis. Three years shall be the minimum period for a member to be re-nominated.
- All creditor payments shall be made by cheque only.
- All vouchers and supporting documentation shall be properly stamped "paid" before cheques are dispatched.
- Proper and timely **bank reconciliations** shall be prepared on a monthly basis by the Accounts/Finance person and submitted to the Executive Director for review and approval. The bank reconciliations shall be independently reviewed by the executive committee members' biannually.

Section 4: Budget and expenditure procedures

The Executive Director and the Finance person will be responsible for the following activities related to budget and expenditure:

1. Prepare annual work programme and budget along with operational budgets and this must be submitted to the Board for approval. The activities shall be undertaken only on approval of the Board.
2. The Finance person shall record the original (or revised) budget for the financial year.
3. The budget book shall be maintained on a computer spreadsheet.
4. All daily expenditure shall be posted to the budget book, record cumulative expenditure and monitor remaining budget.
5. The Executive Director shall obtain donor approval in advance for revisions of budgets.

Section 5: Fixed assets and depreciation

Fixed assets are defined as tangible assets, which have been acquired either through purchase or donation with the intention of being used on a continuing basis for a period exceeding one year. All assets shall be included in Lhak-sam's fixed asset register.

To facilitate proper financial and management control, fixed assets shall be grouped into five categories:

1. Motor Vehicles (MV)
2. Office Equipment (OE)
3. Office Furniture and Fittings (OF)
4. Computer Equipment (CE)
5. Leasehold Improvements (LI)

Fixed assets shall be recorded at cost of purchase price or market value for donated assets.

Fixed asset tag numbers

Recording in the fixed asset register shall use a three-digit tag number in the format of the following example: BMS/OE/015. BMS designates the donor. The digits OE indicates the asset category (Office Equipment) while the last three digits represent the asset number in chronological order. For motor vehicles, the registration number shall be sufficient for identification purposes.

Fixed asset procedures

1. Opening balances of existing fixed assets shall be recorded in the **asset register** (either at cost for asset purchases or fair market value for asset donations).
2. The asset register shall be updated for additions in the month of purchase or donation.
3. The asset register shall be updated for disposals in the month of disposal.
4. All additions and disposals of fixed assets shall be recorded in the general ledger.
5. Where applicable, depreciation shall be computed and recorded in the asset register.
6. To have an effective fixed asset register, the following steps shall be followed:
 - Prepare a listing of fixed assets donated by each donor during the year

- Prepare a listing of fixed assets purchased by Lhak-sam during the year
- Verify existence of each item on the lists above by performing a physical inventory count
- Assess the condition of the assets and their location
- Assign asset tag number to each asset

7. To create an asset register, individual assets in the register shall be recorded by entering the following headings:

Name and description – Record the name and description of the asset.

Cost – Original purchase price or fair value donated.

Supplier – Record the source of the asset.

Purchase reference – Provide a reference to the procurement/ payment documents.

Date of purchase – Record the date of purchase.

Location – Record the present location of the asset through inspection.

Condition – Record the present condition of the asset (excellent, good, fair and poor).

Asset number – Record the asset number (tag number) where numbers are being assigned.

9. The Executive Director and the Finance person shall update the fixed asset register as follows:

- Perform an annual physical inventory count to confirm the existence and condition of the fixed assets
- Record any fixed asset additions
- Record any fixed asset disposals
- Remove fully depreciated or obsolete assets from the fixed asset register

No member of Lhak-sam shall stake any personal claim on any movable or immovable property of the Organization or make any profit, whatsoever, by virtue of his/her membership.

Lhak-sam Board shall strictly prohibit financial loans to Board members and other personnel.

Section 6: Travel Procedures

All official travel by Lhak-sam members shall be undertaken as per work plan which shall be approved by the Board. Any other travel shall be undertaken with prior approval of the Executive Director only.

Lhak-sam shall advance/reimburse employees/ consultants for any pre-authorized expenses incurred in travelling on authorized travel, on official business.

The amount advanced/reimbursed shall be based on the rates advised from time to time by the board but not exceeding the government approved rates. The rates shall be based on cost of travel, accommodation, etc, in the specific location.

Donor funds used to sponsor international travel shall be undertaken on International Airlines. All international air travel shall be economy class.

Section 7: Procurement of Goods and Services

The Executive Committee of Lhak-sam shall also serve as the committee for procurement of goods and services. They shall serve as the tender committee to evaluate tenders and shall also approve call for quotations.

No employee, officer or agent or relative of Lhak-sam shall participate in the selection, award or administration of a contract if a real or apparent conflict of interest would be involved. Where there is a violation of this clause, the board shall be informed and disciplinary action shall be taken against them which will be final and binding.

No contractor involved in developing or drafting specification requirements, statements of work or request for proposal shall be considered for such procurement.

Procurements should be carried out using one of the following:

Tendering: All goods and services valued at Ngultrum 50 000 and over shall be procured by tendering. The tender shall include complete, clear and accurate information on:

- Responsibilities of contractor/specifications of tasks/ type of service required
- Minimum qualifications and experience required
- Terms of service
- Identification of Lhak-sam as the originator, giving full details of where and by when (date and time of bid closing) the offer must be submitted
- Time frame for the proposed order, from issue of order to final delivery

Quotations: Goods and services valued at more than Nu 2000 but less than Nu 50,000 shall be procured through quotations. The procedures shall be as follows:

- Obtain a list of known suppliers for the required goods or services
- Obtain quotations from at least three different suppliers from the list above
- Fill in the Comparative Quotation Chart (CQC) to analyze and document justification for recommending a particular vendor
- In compiling the CQC above, in addition to prices, other factors such as reliability, previous satisfactory performance with the grant recipient, quality products/services and delivery schedules shall be considered.

Goods and services valued at less than Nu 2000 shall be purchased after obtaining the approval of the Executive Director. Lhak-sam shall develop a list of reliable suppliers to expedite all purchases

Lhak-sam shall afford authorized representative of the CSO Authority and all Donors and their agents, the opportunity at all reasonable times to inspect activities financed by grants received, the utilization of goods or service financed by the grants, and agreement books and record.

Section 8: Reporting Procedures

The Executive Director shall prepare an annual report within 60 days of the end of the fiscal year and submit it to the Board.

The Board shall be responsible for submitting an annual report of Lhak-sam to the CSO authority and shall include the following

- (a) a prescribed report by the Board members on the activities of the Lhak-sam during that year;
- (b) an explanation on how individuals can access the programs and services; and
- (c) list of Board members, management staff and its contributors.

Lhak-sam shall also be subject to the audit requirements of grant agreements entered to with donors/grantees.

The Finance person shall prepare an annual financial statement within 60 days after the end of the financial year. This statement shall include the following:

- (d) source of funds;
- (e) clear segregation of foreign currency and ngultrum;
- (f) correction made to past financial statements; and
- (g) Record of Lhak-sam's assets and liabilities.

An annual audit will be conducted by the Royal Audit Authority or any other auditing firm approved by the CSO authority, and shall be a financial audit performed in accordance with Generally Accepted Auditing Standards of Bhutan

The audit report shall be submitted to the CSO authority and to any donors within 30 days after the completion of the audit.

Glossary of Terms

Assets

Resources controlled by an organization, and in which it has ownership rights such as cash, inventory and fixed assets.

Audit

The process of verifying the correctness of a set of accounts using detailed checks of transactions totals, broad tests on account values as well as reviewing internal control.

Bank reconciliation

The reconciliation of the balance on the cash book to the balance on the bank statement.

Budget

A budget is a statement of estimated expected expenditure for the organisation for a given period.

Cash accounting

Under the cash basis of accounting, receipts and payments are recognized only when cash is received or paid. The cash basis of accounting is often used in the preparation of financial statements for donor funded organizations.

Cash books

A cash book is a ledger (record book) that records all the cash transactions (ie, cash received and payments made by the organization).

Depreciation

The annual write-off, of a portion of the cost of fixed assets, over the expected useful life of the asset.

Expenditure

Expenses incurred by the organization which are payable either by cheque or cash.

Fixed assets

Fixed assets are those assets (items of value) which are acquired for continuous use in the business, and not for conversion into cash (trading). The life of such assets should extend beyond one year such as buildings, office equipment and furniture, computers, motor vehicles, etc.

Fixed asset register

This is a record of all the fixed assets owned by the organization.

Float

Amount of cash kept in petty cash.

General ledger

A summary of all transactions grouped into different accounts or budget line items. The totals on the general ledger are posted to the trial balance.

Imprest system

The imprest system is a method of maintaining cash or petty cash, whereby the cashier starts with a fixed sum, and at each reconciling period given cash or a cheque for the exact amount of the disbursements made, thus restoring the balance to the original figure. Documentation supporting the disbursements should be properly authorized and maintained.

Journal entry

The chronological day-to-day recording of business transactions of an organization, such as cash receipts and cash disbursements.

King code on good corporate governance

This is the generally accepted code on good corporate governance in South Africa. It lays out minimum standards that boards of organizations should comply with. While it has no legal basis, it is widely accepted and used in South Africa. The code was set up primarily for larger corporate organizations but its principles are applicable for all organizations.

Payroll

A record of salaries and benefits paid to all staff members of an organization.

Petty cash

A small amount of cash kept for paying small expenses.

Trial balance

A summary of income received and expenditure incurred for the organization for a particular period. The trial balance is drawn up from the general ledger. The financial statements of an organization are derived from the trial balance.

Liabilities

All debts incurred and owed by the organization.

Revenue

All monies received by the organization such as grants, investment income, interest income and cash donations.