“Managing the Risks of the Unfamiliar”: Voice Lessons Learned on ORGANISATIONAL CAPACITY STENGTHENING

Working with the marginalised rightsholder groups and reaching out to new partners for Voice involves providing financial support and forming partnerships with organisations whose capacity may not have been previously assessed using donor or funder criteria. Some of these organisations may already have strong structures, while others, as observed during the first phase of Voice, require considerable support in even basic capacities, such as appropriate controls for managing funds. We aim to finance these organisations of rightsholders based on the compelling concepts they are working on, which align well with the principles of Voice. However, as we operate with public funds, it is essential to ensure that funds are used responsibly. How then do we engage with such partners from a financial risk perspective?

Voice aims to use its grant-making activities not only to support the development initiatives of rightsholders but also to build the capacity of its grantees. During grant implementation, Voice offers technical assistance through regular monitoring visits to assess grantees' operational and financial management systems. Additionally, Voice’s linking and learning components, such as workshops and training sessions, further contribute to capacity building. By enhancing their capacity, we hope grantees will become better equipped to access and manage resources from other future funding partners.

What distinguishes Voice from other funding organisations is its focus on “rightsholders” as the starting point, rather than imposing minimum standards of “organisational capacity”. When an organisation seeks to access funds for rightsholders, Voice does not prescribe specific organisational structures or procedures through manuals and checklists. Instead, through our Country Teams, we initiate conversations with organisations to understand how they think they should be structured to best serve their rightsholders. Where organisations are uncertain about the appropriate processes, our Country Teams may suggest good practices or provide guidance in line with established Voice principles.

This document emphasises the importance of grantees’ understanding of organisational, programme, and financial management capacity, rather than requiring all systems to be documented in advance. It enables the Voice team to address initial due diligence questions raised during the application process, assessing whether an organisation can manage potential funds from Voice in accordance with our standard contracts. This evaluation focuses on what structures and procedures the organisation has developed to ensure:

- Proper accountability to the communities and rightsholders they serve.
- Enhanced value for money for the organisation and the rightsholders.
- Improved preparedness to achieve organisational objectives.
- Better decision-making on the use of funds by staff.

- Reduce risk of resource misuse, theft, and fraud.
- Ensure accountability to donors, constituencies, and relevant stakeholders.
- Compliance with local authority requirements.
- Enhanced organisational credibility.
- Strengthened fundraising efforts.
- Improved financial security and planning capabilities

Using Voice's parameters and eligibility criteria, supported by *Hivos* and *Oxfam* partner assessment tools, our assessments focus on grantees' grant management capacity and long-term sustainability. This document helps the Voice team identify potential partners' strengths and areas for improvement, providing assistance where needed to enhance their capabilities. Grantees may include such support in their budgets.

The scope of an organisational capacity assessment depends on the type of grant applied for and the size of the organisation.

We translate these principles into general organisational dimensions, which are detailed in six chapters:

- Governance and Legal Structure.
- Financial Management and Accounting.
- Budgeting and Reporting Systems.
- Procurement Processes.
- Human Resources Management System.
- Internal Control Systems.

Assessments of grantees' capacity to manage Voice funds in these areas are conducted by Voice's combined programme and finance team. This helps identify weaknesses and propose capacity strengthening interventions. Our approach is collaborative: discussions with grantees begin with our understanding of these dimensions, seeking to jointly identify how best to manage funds to benefit rightsholders, while considering the size and needs of the organisation. We also provide best practices to support this process.

This is a living document that will be updated based on our collective experiences. It is not intended to serve as a comprehensive manual.

The chapters in brief

- **Governance** is the process of decision-making and the process by which decisions are implemented (or not implemented). It is how organizations do things. The process of governance in any institution lies with the governing body or the board of directors or board of governors. Depending on the type and size of organization, members of the governing body are required to have specific skills. It is highly recommended for all the governing bodies to have someone with financial management expertise on board.
- **Financial management** is one of the most significant dimensions to operate an organization towards their long-term goals. Planning, organising, controlling and monitoring the available resources to be utilised more strategic, efficient, effective and lessen risks to achieve their long-

term strategies are key concepts of financial management systems. This goes for any NGO and for the Voice grantees.

- **Budgeting and reporting** are an essential stage as it enables to come up with detailed estimates for all the project costs and then during implementation the basis for proper budget monitoring and reporting to stakeholders. Once the budget is compiled, one can add up the cost estimates into a cash flow plan, following the activity planning in the project. It is now possible to track the project according to that budget while the work is ongoing and report to stakeholders.
- **Procurement** is the purchase of works, assets, goods and services for the organization. It is one of the riskiest areas in NGO financial management, often abused by kickbacks, paying too much for sub-standard goods, and buying from related parties.
- **Human Resources** refers to both the people who work for an organization and the department that manages those people. A human Resource policy is a document with guidelines on how an organization intends to manage its employees in different aspects such as training, recruitment, staff welfare, compensation, promotion, etc.
- **Internal control** can be defined as the set of securities contributing to the control of the organization. Proper internal control will promote effectiveness and efficiency, reduce risk and assets loss, and helps ensure the accuracy of financial statements and compliance with laws and regulations. All to the benefit of the organization and the rightsholders it seeks to represent.

1. Governance

Governance is the process of decision-making and the process by which decisions are implemented (or not implemented). It is how organizations do things. The process of governance in any institution lies with the governing body or the board of directors or board of governors. Depending on the type of organization, members of the governing body are required to have specific skills. In all the governing bodies someone with financial management expertise would be very welcomed. For very small organizations or groups, they may have an executive committee that may be assumed to act as the governing board in this case.

Good governance is key to the growth and sustainability of any organization. This is because it shows the credibility of the organization and its going concern. It also provides a basis of been taken seriously by the rightsholders they seek to represent and the stakeholders at large. Good governance can be shown in our partners in the way the rights holders are involved in the decision-making process and are even part of the board of directors or the executive committee in the part of small organizations.

In all governance processes the governing body has the final say. The director is answerable to the body and represents the other staff members as an ex-official in the governing body. For small organizations or groups, the executive committee has the final say and this becomes the highest authority of the organization and is checked by the rest of the members of the group.

The governing board can meet at least once a year or even more depending on the needs and requirement of the organization.

This is a guideline on what or how good governance will be measured in an organization by the stakeholders (Rightsholders for Voice) and the community at large.

1. Vision, Mission, Values, and Objectives – This answers the question of why, what, when and where. Why does the organization exist, who are the stakeholders or community its serving?

Based on the illustration below, the organizational pyramid may consist of 5 stages, including Vision Mission, Objectives, Strategies and Activities. From here the budget plan will be developed from the last part of the planning pyramid which is activities. It will be developed based on financial policy, rates and regulations and guidelines of the organization.

2. Strategic Plan – This could look at a brief of the organization's SWOT analysis and how this forms programming.

3. Code of Conduct – These deals with the issue of how the organization deals sexual harassment and fraud and corruption and if there are any policies in place to deal with this in case it happens in the organization or in the locality where the organization is working in.

4. Risk Management – Looks into the going concern of the organization, in case anything happens can the organization be able to continue? This also looks into compliance issues of the organization with the government. Are (external and internal) audits carried out? How does the organization ensure it will safeguard the funds of the donor? How is conflict of interest handled?

5. Governing structure – This ideally give a brief on the structure of the organization, who are in the leadership, what are their qualifications and a brief of how the staff are organized and what kind of controls and checks are in place.

6. Organizational Policies and Procedures – This can be guidelines/policies that are used in the organization and how they are formed. Who approves the use of such guidelines/ policies and what kind of guidelines/policies does the organization have in place.

7. Basis of the organization – This could indicate what type of organization this is in terms of registration. Is the bank account in the name of the organization? How is signatory of bank account arranged for?

Roles and Responsibilities of the Governing Body could be:

1. In partnership with management, setting and monitoring the organization's mission, purpose, direction, priorities and strategies within the boundaries of its constitution and legal obligations.
2. Regularly scanning the environment in which the organization operates to ensure that what it's attempting to achieve remains relevant and achievable.
3. Specifying key outcomes and ensuring there are adequate resources people and finances to achieve these.
4. Monitoring the organization's programs and services.
5. Actively involving key stakeholders in setting and monitoring the organization's mission, maintaining positive relationships with them and developing policies that best serve their needs.
6. Appointing and supporting the chief executive, evaluating his/her performance and rewarding or replacing him/her as necessary.
7. Being accountable to the organization's funders and/or owners
8. Risk management
9. Ensuring the governing body complies with all legal requirements and with the governing body's own policies
10. Influencing decisions and finances
11. Reporting, at least annually, to stakeholders (Annual Plan & budget, annual report, internal and external audit)
12. Setting standards for and evaluating its own governance performance
13. Ensuring a proper internal control system for the organization
14. Maintaining a governing body succession plan.

2. Financial management System

Financial management is one of the most significant dimensions to operate an organisation especially in non-profit industry towards their long-term goals. Planning, organising, controlling and monitoring the available resources to be utilised more strategic, efficient, effective and lessen risks to achieve their long-term strategies are key concepts of financial management system. This goes for any NGO also for the Voice grantees.

Having a healthy financial management system enables grantees in their competitiveness to win the grants from donors. It strengthens the creditability of an organisation to be chosen to receive another grant from donors to continue to work for the benefit of the rightsholders and other partners and stakeholders. Moreover, having a proper and solid financial management system is the basis for their organisational sustainability.

Normally when we speak of financial management, we talk about 4 key dimensions namely, accounting and accounting records, financial planning, financial reporting and internal control. In this chapter, accounting system & accounting records and financial planning (of the organisation) will be discussed in more detail where the other two dimensions will be presented in other chapters.

2.1 Roles and responsibilities: Who does what in financial management

	Responsibilities / duty descriptions	Responsible persons / entity
1	Overall management and approval of the annual plan and reports including audits of the organisation	Governing body
2	Preparing and controlling (project) budgets	Project managers / budget holders
3	Approval project expenditure	Project managers / budget holders
4	Signing cheques & authorise bank and cash payments	Delegated authorities (2 signatories)
5	Accounting financial transactions	Accountant / bookkeeper
6	Preparing and completing financial reports	Accounting team (ledger) and Project Finance officers; BtA with project managers
7	Prepare and submit the report to donors	Programme manager and finance officer; approval by delegated authority

2.2 Accounting Records

Accounting records show the information for each individual expense, including what, why, how much, and from which source and books. Those are essential information that all organizations should keep allowing for accountability and transparency of the organization.

Accounting records could be categorized into two types:

Books of Accounts – they could be books or ledgers show the recording transactions and summary of each account. Those could be recorded in books or by accounting software that could support the essential elements of accounting system especially for nonprofit organizations for example, QuickBooks, MYOB or any other accounting software or by a simple Microsoft Excel that created to support the accounting part. However, it would be dependent on the number of daily transactions and the types of the reports needed. The essential books might include bank book, Cash book, Cash advance monitoring for the field trips, etc.

Supporting documents – The document that should certify for each expenditure. There should be at least one supporting document for every transaction taking place. Below some examples for supporting documents for certain type of costs / activities featuring in Voice.

1) Travel
   - TOR / authorisation of budget
   - Requisition for travel / invoice(s), ticket (proof of payment), boarding pass, receipt for ticket, accommodation, local transport, meals, etc.
   - Travel report, including overview of costs
   - In case of advances, proof of payment of the advance as well as the reconciliation / reimbursement of funds.

2) Workshop (locally organised)
   - TOR / Memo for workshop / budget authorisation
   - BID Analysis / selection criteria for workshop venue / framework agreement with host
   - If overseas participants: air ticket, transport, visa, etc.
   - Workshop venue invoice / receipt
   - Attendance list (sign off) / contact data pictures (proof of attendance)
   - Receipt for local transportation, reimbursement of costs
   - Invoice / receipt for meals / tea/coffee breaks
   - Training materials, stationary receipts
   - Workshop / training report
   - In case of advances, proof of payment of the advance as well as the reconciliation / reimbursement of funds.

3) Procurement

Depending on the thresholds and type of procurement, the possible list of supporting documents is (see further in chapter procurement):

- Requisition of purchase, properly approved by budget holder.
- Invitation for offer: single, request for quotations and / or tender with technical specifications and/or Terms of Reference for services required.
- Procedure: selection / award criteria and documented assessment process.
- Contract with supplier; notice to non-awarded parties.
- Creation of Purchase order.
- Goods / services receipt note.
- Invoice supplier, properly dated and addressed to the respective Voice party.
- Approval budget holder of the payment to the supplier.
- Proof of payment.

A final note: the supporting document could be considered as the most important element of the accounting system and basis for financial reporting to the stakeholders in the organization as well as to external parties as the donor, ensuring eligibility of costs. Therefore, supporting documents should be preserved as it is stated in the accounting law of the country and donor's guidelines (10 years retention period for Voice).

2.3 Accounting system / Two approaches for keeping accounts: Cash and accruals accounting

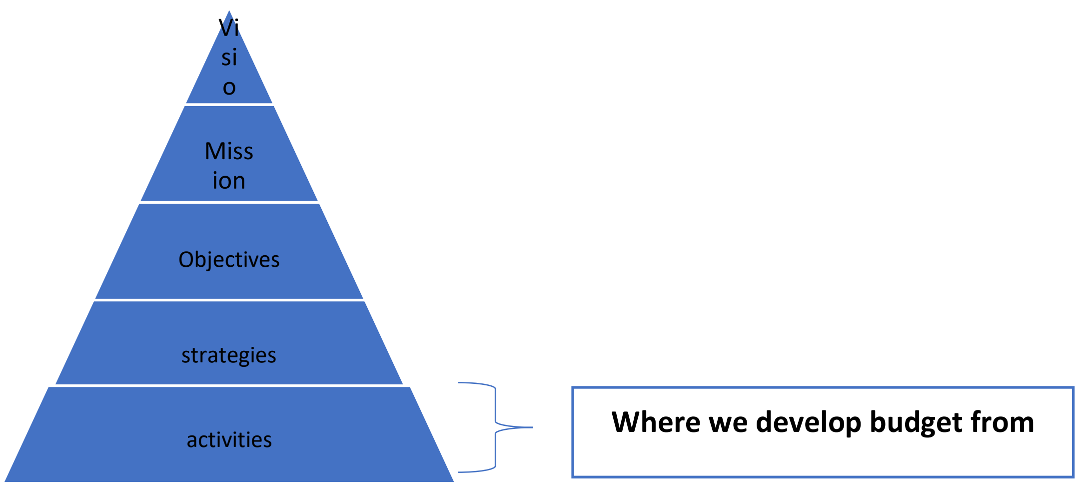
Cash accounting – is a simple bookkeeping system which is relatively easy to use. The accounts will be only booked when the payment is made.

Accruals accounting – a more advanced system requiring knowledge of 'double entry' bookkeeping techniques. This uses a General Ledger (in addition to the Cashbook) to capture financial transactions when they are committed or due. The information in the system will be included the information what organization own and owe.

There is also a "hybrid" approach or cash modified" that have been using by many NGOs. This is where the cash accounting system is used during the year and some types of expenses are booked at the year-end on an accruals basis or some type of transactions, for an instance, advance for field trips and some fees that have not been paid yet but the service is already provided.

2.4 Financial Planning

Financial planning is the way to budget the activity plan strategically based on both long term and short term organisational strategic plans. It could also be based on the specific project or period and purpose of their organizations.



Based on the above illustration, the planning pyramid consists of 5 stages: Vision, Mission, Objectives, Strategies and Activities. And the budget plan will be developed from the last part of the planning pyramid which is the activities the organization seeks to implement to reach its objectives. It will be developed based on financial policy, rates and regulations and guidelines of the organization.

Who does what in financial planning / depending on size of the organization

Process	**Who responsible**
Ensuring the vision, mission of the organization will be achieved based on the proposed activities and budget as	Board of director

well as approve the strategic plan, annual Workplan and budget plan	
Overseeing and leading the budget plan process and ensuring activities and budget of the organization are consistent with the strategic plan	Organization's director
Setting up guidelines and tools for setting up either activity or budget for instances, financial regulations, personnel policy as well as other relevant regulations.	Senior manager
Produce detailed activities and budget to support the expected outcomes of the organization	Programme team
Support the programme to ensure that all the cost are covered by the plan and consistent with the policy	Finance team

3. Project Planning, Budgeting and Reporting

This is an essential stage as it enables to come up with detailed estimates for all the project costs and then during implementation the basis for proper budget monitoring and reporting. Once the budget is compiled, one can add up the cost estimates into a cash flow plan, following the activity planning in the project. It is now possible to track the project according to that budget while the work is ongoing.

The purpose of this subject is to enable the grantee to ***plan project expenses and to deliver value to whatever money given to the project and to build the basis for project implementation and budget and cash flow monitoring as well as for financial reporting to all the stakeholders.***

3.1 Making a budget

The creation of a project budget is part of the planning phase of project management. Here are the steps that could help grantee to make project budget:

- Identify project scope - To be clear on the project scope, timelines, and deliverables. An activity plan with time frame is the basis for your budget and cash flow planning.
- Define resources – staffing, equipment, trainings, etc… here it is suggested to give proper justifications for all those resources in relation to the project they seek to be funded in answering the question: why do you need the resources to reach the objectives of the project
- And clarify your budgeted costs, assign amounts - preferably based on clear units and number of units and realistic prizes of each unit, such established under transparent procurement processes: how do you come to the price of each unit?
- Build your budget and include a cash flow overview to ensure you have funds available at the right time during project implementation
- Present the budget in both local and grant currency
- Obtain approvals and implement

3.2 Managing the Budget

Just like one track project activity, grantees will need to track and monitor expenditures throughout the project. Project budget management ensures the project stays in line with the budget over time. Budget monitoring report is accountability for both programme staff and financial staff and it is suggested that the budget holders should receive monthly financial monitoring reports. Finance and programme staff are suggested to discuss the monthly monitoring reports together, to e.g. ensure completeness and correctness and to discuss potential adaptations and cash flow needs.

Projects seldom go according to plan in every detail. It is necessary for Voice to assist the grantee to be able to manage Budgets properly. Assist the Grantee to be able to identify when costs are varying from budget and manage those variations. Below are the tips for managing Project Budget.

- Managing Cash Flow - Focus is to help the grantee to give / manage cash flows as per the workplan

- Evaluating the Budget during the Project / Budget oversight

- Revisit, review, re-forecast; indicate total cumulative spent and cash balances

- Keep everyone informed and accountable

3.3 Financial reporting:

Financial reporting is among the key components of the overall financial management system. The purpose of financial reporting is to provide timely and accurate financial information to the relevant stakeholders on the programme. The reports provide important information to the implementers and to the external stakeholders on the program's progress and financial status.

This section sets some guidance to Grantees on financial reporting.

When strengthening capacity to Grantee on Financial Reporting, it is important to note / discuss with Grantee of what could be in place, in respect of the size of the organization. Here we may investigate:

- Previous Financial and audit reports – for well-established organizations Voice requests Audited Reports of the two last financial years
- (if relevant) Finance and admin manual / Procurement manual / HR Manual Accounting package
- Bank Statement / Bank account with the name of the Organization (Voice requirement)
- Sample payment voucher, requisition form & retirement form
- Conflict of interest policy; fraud & corruption policy

Having established the base from the mentioned areas, the below areas could be further discussed and indicated as "Best Practice". These areas could be reviewed / discussed from time to time to strengthen the capacity of the grantees:

- The role of the Board in the organization e.g. reviews financial reports, organizational and project budgets, and organizational and project audits
- Regular updates of finance and / or HR manuals / policies
- Introduction to and training of staff to finance and HR policies of the organization
- Use of accounting package in recording financial affairs of the organization.
- Compliance to statutory requirements
- Audited financial statements (when applicable)

- Staff contracts for those staffs who are engaged / involved in the funded project
- Reporting schedule to the donor
- Budget management / oversight
- Period / Timing of the project
- Financial report should be checked by budget holder before sending the report out to the donor

Furthermore, the below are various areas that we can work together in making sure that we strengthen capacities of our grantees in area of Financial reporting:

Assist in grant management: Basic reporting guidelines like how to present the FR especially if the donor has given a template.

Preparing ledger which includes all income and expenses as reported in the Financial Report and which is to be clearly linked to the Financial report. Also, quality and archiving of supporting documents (10-year retention period) and bank statement indicating income received form Voice and exchange rate applied.

Pinpoint areas of financial risk: In financial processes of grantees, we see procurement processes and staff costs as major risk areas. But also tracking expenditures against budgets is important. For example, where is the largest proportion of funds being allocated and used or not used? Are the funds being spent in the planned areas? Grantee Voice must assist the Grantee in reallocation which in a long run enables Grantees to meet the project objectives.

Project Audit Report: to those grantees who are required to prepare and submit audit report. We may assist in developing Terms of Reference (ToR) for audit processes. And getting an external opinion on financial management policies and practices is very helpful for every organization.

Funds Flow / Disbursements: Funds or cash flow refers to the way the disbursements of cash resources are channelled to the grantee for the execution of programme activities, in accordance with Grant Agreements and the agreed implementation arrangement.

4. Procurement

Procurement is the purchase of works, assets, goods and services for the organization. It is one of the riskiest areas in NGO financial management, often abused by kickbacks, paying too much for sub-standard goods, and buying from related parties.

This document covers the following areas which an organization may consider in developing their own procurement policy:

- Objectives of a procurement policy
- What are the different stages in procurement process?
- Who should be involved in the process?
- Ethical standards on procurement
- Paperwork or documents to be considered when developing your procurement policy

4.1 Objectives of a procurement policy

A good procurement process ensures that:

- The correct goods or services are purchased, in terms of the correct quality and specification
- Best value for money is achieved
- The process is safe, i.e. risk of fraud is minimized
- The process is fast enough to meet program needs
- Grant conditions are complied with

Because of the high risks, some organizations fall into the trap of making the process so bureaucratic that programs suffer, and people are tempted to find shortcuts. Balancing speed and safety are key.

4.2 What are the different stages in a procurement process?

What will you purchase?

To determine the procurement process to follow, you need to consider various parameters on the type of purchase:

- One off (e.g. consultancy service) or repeat (e.g. office supplies)
- Low, medium or high value
- Budgeted or not budgeted
- Subject to grant conditions or not
- Cash or credit purchase
- Fixed asset, service or consumable
- Routine or emergency purchases

In developing a procurement policy, it is good to consider processes for these different options, because that enables any given purchase to have the right level of safety without too much bureaucracy.

4.3 Who should be involved?

Ideally, key tasks in the procurement should be done by different people. This 'segregation of duties' reduces the risk of fraud. In smaller organizations, it may be necessary to compromise if there are not enough staff to fill all the roles.

Governing Body

The Governing Body would, besides approval of procurement policy, normally only get involved with authorizing high value purchases, or significant items that were not budgeted for.

Procurement Committee / Purchasing panel

The procurement committee usually consists of representatives from the program and finance departments, the executive director, and the key users and budget holders. They select suppliers for the authorized supplier list for standard and repeat purchases. They also review individual purchases, choosing the best option from the quotes supplied to them.

User/ Requisitioner

The 'user' needs the goods or services and makes a request for purchase. This could be a field officer, an office worker or a budget holder or manager. Sometimes the user may be involved in sourcing suppliers or obtaining quotes and checking the goods on arrival.

Budget holder

The budget holder is responsible for managing the project and delivering objectives within budget. If the budget holder did not raise the purchase requisition, they should always authorize it. They should also approve the payment requisition.

Procurement / logistics officer

The procurement or logistics officer may be responsible for sourcing suppliers and obtaining quotes, or advertising bids for large procurements. They should not normally sit on the procurement committee. They are usually responsible for going out to do the buying or receiving the goods if they are delivered.

(A dishonest person in this position may collude with suppliers to carry out frauds that are very difficult to prevent and detect – so consider segregation of duties carefully and take care that they do not influence tender committee decisions unduly).

Finance Manager / Accountant / Bookkeeper

The finance team needs to be represented on the procurement committee. They authorize purchase requests and Local Purchase Orders (for making credit purchases), and payment requests. They write the cheques or issue the cash, record the transactions in the books of account and ensure that all the paperwork is properly filed.

4.4 Ethical procurement

Ethical procurement involves consideration of other factors apart from just cost and quality. For example, would you want to buy a good quality, cheap product that had been manufactured using child labour? Or timber that had been illegally logged, or taken from an unsustainable source? Would you prefer to buy local goods rather than imported ones? Thinking about the environment, you might need to consider transport distances, energy efficiency of electrical products, fuel efficiency and cleanness of vehicles etc.

NGOs often form a significant part of the economy in developing countries and their purchasing decisions have a knock-on impact, which may be negative if they perpetuate unsustainable, abusive, illegal, or polluting practices.

Creating an ethical procurement policy is important as it gives the tender committee a justification for selecting an option apart from the cheapest one, if that would be a more responsible and ethical choice.

4.5 What paperwork or documents are needed?

There is a lot of paperwork associated with procurement, which needs to be kept and properly filed so that it can be easily retrieved for audit purposes. An organization may consider the following documents in developing their procurement process:

SUGGESTED SET OF DOCUMENTS

- Purchase requisition
- Local Purchase Order
- Source document (from suppliers)

- Quotations and pro/forma invoices or records of telephone quotes obtained
- Proposals (e.g. for consultancy services)
- Purchase decision record (or equivalent)
- Contracts (e.g. for services)
- Goods Received Notes
- Goods Delivery notes
- Invoices from supplier / consultant
- Payment Requisition
- Payment Voucher
- Receipts / proof of payment

OTHER DOCUMENTS NEEDED FOR REFERENCE

- Budgets
- Grant agreements
- List of authorized suppliers
- Ethical procurement policy
- Minutes of Governing Body and Tender Committee meetings

4.6 Procurement by Repeat Order

Repeat Order (RO) is a method of procurement of goods from the previous winning bidder, whenever there is a need to replenish goods or engage in service agreement. Organization may consider using RO system based on the guidelines set forth by the organization. The guidelines for RO system may include the following:

- The goods or services were procured under a contract previously awarded through Competitive Bidding.
- Unit prices must be the same as or lower than those in the original contract, provided that such prices are still the most advantageous to the organization after price verification.
- Repeat orders may be availed of only within six (6) months from the date of the purchase order or original contract.
- Organization may set a limit on the quantity of each item to be procured based on the original contract.

4.7 Procurement by Preferred Suppliers/Contractors

Preferred suppliers are typically selected for a specific commodity or service category to assist the organization. Organization may consider preferred supplier procurement based on the following characteristics:

- They are the first suppliers to be approached when organization needs arise, and, for the most part, don't have to compete for the business (i.e. do not need to place quotes for their services).
- Preferred suppliers are normally heavily scrutinized for selection (through interviews, reference checks, etc.).
- An assessment and evaluation process must be done before a supplier can be added in the preferred suppliers list of the organization; and

- Conditioned to maintain certain levels of performance to retain status.

The use of preferred suppliers has many benefits, including maximizing the best value to the organization, ease of ordering, savings due to leveraging volume, improved access to information, and a higher level of service due to the strong commitment the supplier has to the organization.

In addition, using a preferred supplier improves productivity and efficiency of personnel by reducing the time used to source bids and negotiate pricing and contractual terms, as the work has already been done by preferred supplier.

Normally, preferred suppliers are contracted for a period of 3 (?) years after which a new procurement process needs to follow.

5. Human Resources

Human resource refers to both the people who work for an organization and the department that manages those people. A human Resource policy is a document with guidelines on how an organization intends to manage its employees in different aspects such as training, recruitment, staff welfare, compensation, promotion, etc.

Why is it important for the organization to have a human resource policy?

The introduction of the policy should show the understanding of what human resource is, what a human resource policy entails, how it affects the organization and its importance in an organization.

Depending on the organization's structure and size, whether an informal group or a registered organization, to establish whether there is a need to have a human resource policy. If it is a requirement to have a human resource policy, such could include the below clauses and other additional clauses as fits the organization and as per the country's employment act.

1. Labour contracts – what is arranged in the labour contract

Each staff shall have a contract in file which could indicate.

1. Position in the organisation,
2. Remuneration rate,
3. Terms of contract whether permanent, contractual or temporary.
4. A list of roles and responsibilities could also be attached to the contract.
5. The contract could also include terms of termination of contract by both the employer and employee
6. Contract could also include other benefits to the employee and the available vacation days per year

2. Reward system (salary, incentives) – what is the salary rate in the organisation per staff position; are incentives in place.

A salary house could be given to show the different salary rates of each staff and their level in the organization. Any other incentives such as airtime allowance, house allowance, meals, allowance, medical benefit, etc. could be clearly indicated and how they shall be treated for tax purposes clearly stated in the manual. This should include probations and appraisal system and how one can move from one step or scale to another.

3. **Working Hours - this can be included as part of the labour contract. The labour contracts should clearly show approved working hours etc.**

The human resource policy could indicate the working hours for the organisation

Is overtime paid?

What constitutes overtime?

4. **Hiring procedure and quality personnel – procedure to hire new staff and ensure qualified staff**

This shows the recruitment process from start to finish, how is the process initiated, how are interviews conducted, what happens after selection.

5. **Exit procedure – what is the procedure when people leave the organisation**

Is there an exit procedure in the organization? Is the procedure needed?

6. **Per diem/ Travel policy – per diem for travel and commuter travel (if relevant)**

For all work-related travel expenses are to be covered by the organization. This could either be as a per diem or an imprest.

For a per diem the amount limit per day could be indicated and if it is more than the allowed for tax purposes this could be clearly stated and subjected to the necessary tax during payroll. It could be clear what the per diem caters for and what shall be paid directly by the organization

For Imprest the procedure for request could be given and the limits on certain expenses given, a procedure for retiring the imprest could be indicated and timelines given.

7. **Staff Advances or loans – policy on staff advances – is that allowed, procedure in place for advances and settlement of advances**

If staff advances are allowed this could be clear and how the advance shall be recovered could also be clear

8. **Personnel files / privacy – how are personnel files archived ensuring privacy of data**

All staff could have a personnel file which could be maintained by the Human Resource Manager under lock and Key. The file could contain the below documents or any other deemed necessary by the organization

Employment Contract
A copy of the national identity card and/or passport.
Permanent home address.
Marital status.
Bank and account number.
Personal Identification Number (PIN) for PAYE.
NSSF number.

NHIF number; and
Name of next of kin, relationship and address.

9. Leave Policy

This could include the number of leave days staff are entitled to per year, are there any other types of leave the staff are entitled to

10. Occupational health and safety

There could be a clause in place for occupational safety and how an employee will be compensated in case of a work-related injury

11. Employees conduct – refer to code of conduct

Have a list of code of conduct that is expected of all the organization's employees
Indicate the consequences of not adhering to the code of conduct

12. Conflict of Interest

Have a clause clearly indicating what constitutes as conflict of interest in the organization

Give steps of how any conflict of interest could be reported

Give consequences of not reporting any conflict of interest and the individual is found out

13. Whistle Blower Clause

For small organisations this can be a clause that is added to the HR policy

Give steps on what is considered as breach of code of conduct and other cases that might need to be reported

Give the process of whistle blowing or reporting any issues anonymously

Include a clause to show the whistle blower will be confidential

14. Disciplinary Action

State the disciplinary actions undertaken by the organization when an employee's actions warrant such action

15. Forms: per diems, advances, advance register

Have templates of certain organizational forms that can be used such as leave form, personnel details form, advance form, and any other form that the organization deems necessary

NB: The human resource policy could be customized to fit each country's guidelines and based on the country's employments act.

6. Internal control

Internal control can be defined as the set of securities contributing to the control of the organization. Proper internal control will promote effectiveness and efficiency, reduce risk and assets loss, and helps ensure the accuracy of financial statements and compliance with laws and regulations. All to the benefit of the organization and the rightsholders it seeks to represent.

In this chapter we will look at what is meant by internal control. Why is such control essential? Why does an organization need internal control? To answer these questions, it is important to place the issue in a broader framework. For this reason, we will first focus on the definition of control.

Next, we will provide an overview of the main internal control measures.

The size of the organization depends on the size and complexity of the required internal control structure.

6.1 DEFINITION OF INTERNAL CONTROL

Internal control can be defined as the set of securities contributing to the control of the organization.

Its objective is threefold:

- To ensure the protection and safeguarding of assets and the quality of information.
- Ensure compliance with laws and regulations.
- And, to ensure the application of the organization's instructions with a view to improving the organization's performance.

Internal control takes the form of the implementation of methods, rules and procedures within the organization.

Internal control is very important in terms of accounting and its probative value, it must ensure that:

- All facts must be recorded, and the accounting must be complete.
- The accounting complies with accounting rules and principles.

6.2 The importance of internal control

Internal control is very important in every organization, with both a highly computerized and a low level of computerization.

For a highly computerized organization, if some of the extracts are incorrectly or incompletely transferred between the various information systems, the accounting and financial statements will not provide an exhaustive account of the operations. The strategic decisions that will be made will be based on erroneous statements and may therefore be misdirected.

But also, in small and non- or low-level computerized organizations you need to set up some kind on internal control system to ensure transparency and accountability.

6.3 Lack of internal control and risks

The temptation to defraud exists whatever the level of computerization. The lack of internal control procedures on the separation of duties and trust in employees opens the door to the temptation to commit fraud and then to fraud.

For example, the people who enter an invoice, validate the payment and make the payment must be separate to prevent an employee, for example, from making false invoices on his or her behalf.

Internal control serves to strengthen and systematize audits. We are moving from one-off operations to permanent controls.

6.4 What is the internal control environment like?

Internal control is characterized by the existence of an entity within an organizational system with people responsible for its implementation.

Any organization may set up – upon need – an internal control system that provides for:

- An organization with a clear definition of responsibilities, which has adequate resources and skills and is supported by appropriate procedures, information systems, tools and practices.

- The internal dissemination of relevant and reliable information, the knowledge of which enables everyone to exercise their responsibilities.

- A system for identifying and analysing the main identifiable risks in relation to the organization's objectives and for ensuring that procedures are in place to manage these risks.

- Control activities proportionate to the stakes involved in each process and designed to reduce the risks likely to affect the achievement of the organization's objectives.

- Ongoing monitoring of the internal control system and regular reviews of its operation.

6.5 Separation of incompatible tasks / functions

Segregation of duties is a fundamental and essential internal control measure and one of the most difficult to apply. It is used to ensure that employees avoid or detect errors or irregularities in a timely manner as part of their day-to-day activities.

Segregation of duties has two advantages:

- First, it makes intentional fraud difficult because it requires collusion between two or more people.

- Second, it makes it easier to detect innocent mistakes. In essence, segregation of duties implies that no one person should be able to exercise control during the performance of two or more tasks associated with a transaction.

The underlying principle of segregation of duties is to ensure that one person does not have access to assets and is also responsible for maintaining the accountability associated with those assets.

To be effective, the system of internal control must involve an appropriate division of responsibilities between those who perform accounting procedures or control activities and those who manage the assets.

In general, the tasks associated with the various activities in a chain of transactions should be assigned so that one person works independently of another or has the function of controlling the performance of a task assigned to that other person.

The main incompatible duties or responsibilities that should be assigned separately are as follows:

a. custody of property.

b. the authorization or approval of transactions relating to such property.

c. the recording or reporting of transactions relating to such property.

d. the reconciliation of accounts.

An ideal system of internal control should ensure that different employees perform each of the above four main functions.

In other words, the same person should not have to perform two or more of these responsibilities.

The more negotiable the asset, the more critical it is to have appropriate segregation of duties, especially when dealing with cash, negotiable cheques, or inventory.

If the same person has the ability to make and conceal errors or irregularities in the course of his or her day-to-day activities, that person has been assigned incompatible duties or responsibilities (incompatible duties).

<u>Examples include</u>

a. authorizing a transaction (Finance Manager) and receiving and taking custody of the assets resulting from the transaction.

b. receives cheques (deposit) (Finance Manager) and approve write-offs.

c. deposit money and reconcile bank statements; (Finance Officer)

d. approves salaries (HR Manager, or HR Officer) and act as custodian of payroll cheques.

e. has unlimited access to assets, accounting documents, terminals and computer programs.

Where complete segregation of duties is not possible, you may need to ensure that mitigating or compensating measures be established to reduce the risk of errors or irregularities.

For example, if the same person (Accounting Secretary/Finance Assistant) is responsible for maintaining and reconciling the accounts, a detailed review of this reconciliation, supported by relevant data, should be assigned to a supervisor (Finance Manager or Senior Finance Officer) to provide additional control due to the assignment of incompatible functions.

However, segregation of duties becomes more difficult to achieve in a centralized and computerized environment. Passwords, read-only access, logs, dual authorization requirements and well-documented entry and exit exams are all compensating control measures that can then be used.

6.6 Prevention of errors in logs and registers

An internal control system on accounting records must meet seven specific objectives to prevent errors in books and records.

Each organization must ensure that:

a. transactions recorded are valid.

b. transactions are properly authorized.

c. all existing transactions are recorded (no omissions).

d. transactions accurately reflect the monetary value of the transaction.

e. transactions are correctly classified.

f. transactions are recorded at the correct period.

g. transactions are correctly included in the subsidiary registers and correctly summarized.