Financial Sector Deepening Uganda

Financial Policies and Procedures Manual

Document review and approval

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Acronyms

AFRC	Audit, Finance and Risk Committee
AGM	Annual General Meeting
ARF	Advance Request Form
BoD	Board of Directors
CLG	Company Limited by Guarantee
CoA	Chart of Accounts
Comms	Communications
COO	Chief Operations Officer
DFID	Department For International Development
ED	Executive Director
EFT	Electronic Funds Transfer
FSD Uganda	Financial Sector Deepening Uganda
FM	Finance Manager
GBP	British Pound Sterling
GL	General Ledger
GRN	Goods Received Note
HRCC	Human Resource and Compensation Committee
IFRS	International Financial Reporting Standards
LPO	Local Purchase Order
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PIC	Programme Investment Committee
UGX	Uganda Shillings
USD	United States Dollar
VAT	Value Added Tax
WHT	Withholding Tax

1 Introduction and Operations overview

This Financial Policies & Procedures Manual ('FPPM' or the 'Manual') is intended to provide guidance to the users at Financial Sector Deepening Uganda ('FSD Uganda'), in carrying out their day to day work systematically and consistently. The users include Finance personnel, Chief Operating Officer, Executive Director, other FSD Uganda staff, Internal auditors, External auditors, Audit Finance Risk Committee, Board of Directors, and Regulators.

The Manual provides a detailed instruction of the Financial management and accounting policies and procedures that are necessary for proper execution and functioning of the Finance function. This Manual shall be used in developing and maintaining an adequate system of financial management and control at FSD Uganda, and facilitate the achievement of the objectives of the company.

The Manual shall be available as a soft copy on the FSD Uganda intranet for all staff and management to access and a hard copy of the same shall be available.

(a) In this manual, unless the context otherwise requires:

i. "Accountability" means how funds have been used.

ii. "Accounting policies" means specific principles, bases, conventions, rules and practices in preparing and presenting the financial statements. Accounting policies may include polices on reporting currency, reporting period, basis of accounting, basis of income and expenditure recognition, foreign currency translation, cash and bank balances, receivables, payables and property plant & equipment among others.

iii. "Accruals" means the revenue is recognized on the day it is earned and the expenses are recorded on the date they are incurred. The recognition of revenue and expenses is not concerned with the dates of actual cash flows.

iv. "Ageing analysis" means the age of creation of individual items within that account. An ageing analysis automatically highlights areas of concern / long outstanding items and is therefore a key tool in improving the value of the reconciliation. It serves as a crucial exception management parameter as un-reconciled balances, over time, will get classified under high age brackets.

v. "An asset" means a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

vi. "Budget" means an estimate of income and expenditure over a set period of time.

vii. "Company/Entity" is used to mean Financial Sector Deepening Uganda or 'FSD Uganda'.

viii. "Constructive obligation" means that past practice creates a valid expectation on the part of a third party.

ix. "Contribution" means a nonreciprocal transfer of cash and other assets, rather than an exchange transaction for goods or services that are an output of the entity's ordinary activities.

x. "Contract" means an agreement between two or more parties that creates enforceable rights and obligations and specifies that enforceability is a matter of law. Contracts can be written, oral, or implied by an entity's customary business practices.

xi. "Customer" means a party that has contracted with an entity to obtain services that are an output of the entity's ordinary activities in exchange for consideration. In the context of FSD Uganda as a Not for Profit, customer refers to donors (funders).

xii. "Direct Costs" means expenses required to execute a grant that are directly attributable and can be reasonably allocated to the program. These include projects advances/disbursements, program staff salaries, program travel expenses and program consultancy fees. These are costs that would not be incurred if the grant did not exist are often indicative of direct costs.

xiii. "Fixed assets" means assets purchased or intended for long term use such as Land, Buildings, Equipment, and Furniture and fittings.

xiv. "Forecast" means estimates of what the cash inflows into the bank account and outflows out of the bank account will be. The result of the cash flow forecast is an estimate of the bank balance at the end of each period covered.

xv. "General ledger" means a record of all the accounts for recording transactions relating to a company's assets, liabilities, owners' equity, revenue, and expenses.

xvi. "Grant" means a sum of funds given by an Organisation to a person or another Organisation for a particular purpose.

xvii. "Grants/Fund management" means all the administrative tasks required to handle the funds including financial management and reporting in a way that meets generally accepted standards as well as the requirements of the funding source.

xviii. "Grants monitoring" means the overall system of reviewing and tracking the use of funds disbursed to grantees and the more specific day-to-day review processes to assure that a particular grantee is in compliance with fund policies, and is meeting the goals and objectives of the grant.

xix. "Implementing partner" means an entity or agency that supplements the work of FSD Uganda by carrying out services in line with FSD Uganda's goals/ objectives and donor requirements.

xx. "Income" means increases in economic benefits during the accounting period in the form of inflows or enhancements of assets.

xxi. "Indirect Costs" means general overhead and administration expenses that support the entire operations of FSD Uganda or its implementing partners and that may be shared across projects. These include general operating and administrative expenses such as rent, insurance utilities, audit fees, legal costs, telephone & internet, postage & courier, general office expenses, governance costs, support and administrative staff salaries including human resource, general finance, accounting, information technology, and operations. These are expenses that would be incurred regardless of whether the grant is funded are often indicative of indirect costs. While these costs may not be directly attributable to a project, they are real and necessary to operate as an organization.

xxii. Key/executive management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity. The FSD Uganda executive management are defined in section 1.2 of this manual.

xxiii. “Liability” means a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

xxiv. “NOCLAR” means Non-Compliance with Laws and Regulations.

xxv. “Obligating event” means an event that creates a legal or constructive obligation and, therefore, results in an entity having no realistic alternative but to settle the obligation.

xxvi. “Provision” means a liability of uncertain timing or amount.

xxvii. “Probable” means more likely than note.

xxviii. “Prepayments” means payments for expenses for that are not yet incurred.

xxix. “Performance obligation” means a promise in a contract with a customer to transfer to the customer either:

1. a service (or a bundle of services) that is distinct; or
2. a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer.

xxx. “Reconciliation” means the process of substantiating and validating the open items making up balances on the General Ledger (GL) using evidence obtained from internal and/or external sources. Reconciliations normally refer to Balance-Sheet accounts. Profit and Loss accounts are normally covered through an analytical review process.

xxxi. “Reconciliation schedule” means a schedule that sets out the breakdown and proves the validity of the account balance. It proves that the account balance represents only genuine assets and liabilities.

xxxii. “Related party” is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity'). The following are deemed not to be related:

- two entities simply because they have a director or key manager in common;
- two venturers who share joint control over a joint venture;
- providers of finance, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process);
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence.

xxxiii. "Related party transaction" means a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

xxxiv. "Restricted funds" means funds for particular purposes and can only be spent on those purposes within the stipulated timescale.

xxxv. "Revenue" means income arising in the course of the entity's ordinary activities.

xxxvi. "Risk" means future uncertainty about deviation from expected earnings or expected outcomes.

xxxvii. "Senior management" means pillar heads and heads of programme support functions as defined in section 1.2 of this manual.

xxxviii. "Sub awards/grants" means a grant made by FSD Uganda using funds previously granted to it by another. They relate to grants provided to implementing partners.

xxxix. "Sub-grantee" means an entity or agency that supplements the work of implementing partners by carrying out services in line with FSD Uganda goals/objectives and donor requirements.

xl. "Transaction price" means the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

xli. "Trial Balance" means a listing of all accounts (Assets, Liabilities, Income and Expenditure) in the GL. It is a period-end summary report of ledger account balances including all Assets, Liabilities, and Income and Expenditure accounts.

1.1 Background

FSD Uganda is a company limited by guarantee incorporated in Uganda on 3rd March 2015. The Memorandum and Articles of Association provide the objectives of the company and establish the legal powers and responsibilities of the Members, Board of Directors, Programme Investment Committee and the Executive Director.

FSD Uganda is a Company Limited by Guarantee (CLG) without share capital. FSD Uganda is governed by the Board of Directors (BoD) who delegate to the Executive Director (ED) to execute the day to day activities of the company.

FSD Uganda's mission is to develop a more inclusive financial sector with a focus on low-income individuals (particularly women) and Micro, Small and Medium Enterprises (MSMEs).

1.2 Governance and management

The executive management of FSD Uganda comprise of the:

1. Executive Director (ED);
2. Director of Programmes; and
3. Chief Operations Officer (COO).

The senior management of FSD Uganda comprise of the:

1. Pillar heads including: Head of Business Environment, Head of Infrastructure, Head of Financial Services; and
2. Heads of programme support functions: Monitoring & Results Measurement specialist and Research specialist.

The Members and Board that govern FSD Uganda are included in Appendix 14 of this manual.

1.3 Purpose of the Manual

This Manual shall serve as a guide and reference to the staff of FSD Uganda and other stakeholders with regards to financial policies and procedures.

1.4 Compliance with and review of this manual

- The operations of FSD Uganda may be subject to change. In order to reflect the way FSD Uganda interacts with a changing environment, including changes in financial reporting audit standards and practice, this Manual shall be reviewed and updated periodically in order to ensure that it remains relevant;
- The BoD' are responsible for approving this Manual.

- The AFRC shall periodically review and recommend updates to this Manual to the Board for approval.
- Compliance this Manual is delegated by the BoD to the ED who is responsible for ensuring that adequate internal controls are in place.
- It is the responsibility of the COO to ensure that the policies and procedures in this Manual correctly describe the operations at FSD Uganda;

1.5 FSD Uganda strategy

1. The strategy for FSD Uganda is set out in the FSD Uganda Strategic Plan 2018-2021. All projects funded by FSD Uganda shall be consistent with the Strategic Plan.
2. The ED shall be responsible for preparing and submitting the strategy to the Board for approval.

1.6 Annual Business Plan

1. The ED is responsible for preparing the Annual Business Plan (ABP) which sets out the activities to be undertaken during the relevant year so as to achieve the objectives in the Strategic Plan 2018-2021. The ABP shall provide the framework for the ED's work over the year and the ED shall be held accountable for delivering this plan. Where there is need to deviate from the ABP, the ED will submit the proposed revisions to the AFRC for review and approval by the BoD.
2. The ABP shall be subject to technical review by AFRC and approval by the BoD.

1.7 Key roles and responsibilities

1.7.1 Donors

FSD Uganda relies on donor funding to finance its operations.

Individual funding agreements shall be established between FSD Uganda and the participating donors.

1.7.2 Members of FSD Uganda (Guarantors)

The members of FSD Uganda shall oversee the activities of the Board and shall have the right to make certain key decisions relating to the operation, management and governance of FSD Uganda (including the right to appoint and to remove members of the Board and the Executive Director and the right to amend the articles of association) within the scope of the authority provided by Ugandan law and by FSD Uganda's Memorandum and Articles of Association.

1.7.3 Board of Directors

The BoD shall oversee all activities of the company and ensure that all policies and activities are in accordance with the objectives of the company as set out in the Memorandum of Association; Companies Act of 2012 (the 'Act') and other applicable laws and funding agreements. In the event of any inconsistencies between funding agreements and any laws or regulations, the latter shall prevail. The specific roles and responsibilities of the Board include:

- Ensuring that all policies and activities are in accordance with the objectives of the company as set out in the Memorandum of Association and the provisions contained in the Act.
- Fiduciary responsibility of the company and authority to make all decisions regarding the finances, assets operations and management of the company within the scope of the authority provided to it by the members of the company, and duties imposed upon it by these Articles of Association and by the laws of Uganda.
- Causing proper books of accounts to be kept, in accordance with the Act, with respect to:
    a) All sums of money received and expended by the company and the matters in respect of which such receipts and expenditures apply.
    b) All purchases of goods by the company;
    c) All assets and liabilities of the company.

  From time to time determining whether and to what extent and at what time and places, and under what conditions or regulations, the accounts and books of the company or any of them shall be open to the inspection.
- Ensuring that FSD Uganda has an effective strategic planning process which takes into account the opportunities and risks of the company's business;
- Ensuring that the company has appropriate internal control and management information system/framework in place to support and protect the company's accounting and financial reporting process, including compliance with Uganda's laws and regulations;
- Overseeing the implementation of appropriate risk assessment systems to identify and manage principal risks of FSD Uganda business;
- Ensuring that the company establishes an appropriate organisational structure, management of succession planning and evaluation of senior management;
- Leading the implementation of good corporate governance practices.

The Board is empowered by the Memorandum and Articles of Association of the Company to delegate any of its powers and functions to well-structured committees consisting of such number of members of their body as they think fit to assist the Board in the discharge of its duties and responsibilities.

The FSD Uganda committees comprise of the Audit, Finance and Risk Committee, Programme Investment Committee and the Human Resource and Compensation Committee.

1.7.4 Audit, Finance and Risk Committee ('AFRC')

AFRC's mandate comprises of three major functions namely audit, risk and finance oversight functions. In particular, the Committee shall:

1. Monitor the integrity of the financial management reporting and the preparation of financial statements and the performance of the Finance function;
2. Review and monitor the adequacy and effectiveness of risk management system under its Risk function;
3. Seek independent advice to assist the Committee with the execution of its duties at the Company's expense subject to an approved process;
4. To oversee the internal and external audit functions;
5. Review the adequacy and effectiveness of control processes across the Company, the integrity of financial statements and both the external and internal audit functions under its Audit function.

1.7.5 Programme Investment Committee

The FSD Uganda PIC shall provide expert advice and guidance on investment decisions. The PIC shall be responsible for reviewing and approving investment proposals as delegated by the Board. The PIC shall review and responds to request from the Board of Directors, the members or the ED. The scope of the authority of the PIC and the membership shall be in accordance with the PIC constitution.

1.7.6 Human Resource and Compensation Committee

The mandate of the Human Resource and Compensation Committee shall be to oversee all matters in the Company relating to compensation and development of human resource capacity.

1.7.7 Executive Director

The ED shall be responsible for the day to day running of the company. The role includes managing the operations, personnel, budget, policy and advocacy functions of FSD Uganda. It also involves implementation of the decisions of the Board under the overall guidance of the Board. The ED shall provide strategic direction of FSD Uganda, providing organisational leadership, engaging stakeholders, governing, overseeing results measurement and financial management.

1.7.8 Chief Operations Officer

The COO as a member of the management team shall support the organisation in strategic and operational planning. The role will include donor relationship management, supporting the ED with overseeing the finance function and ensuring FSD Uganda's resources (financial, physical and human) and systems are managed according to best practise and in compliance with the laws of Uganda and FSD Uganda policy. The role will also lead the operations team, in a manner that empowers them to effectively achieve results and manage the resources of the organisation.

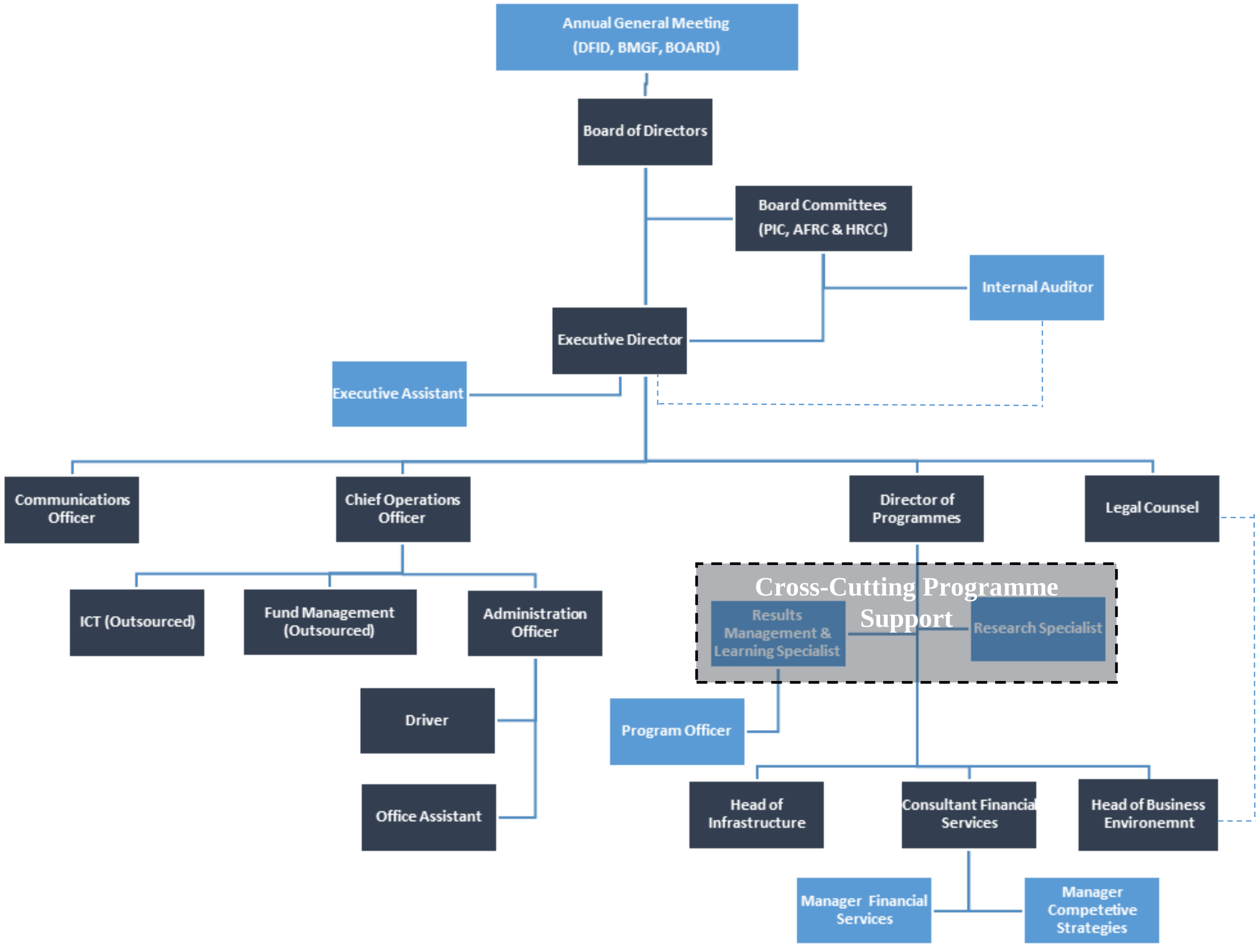
1.7.9 Finance team

The FSD Uganda finance function is currently outsourced to a fund manager who provides financial management and procurement administration.

The fund management team is headed by a Fund Management Partner. The Fund Management Partner has oversight over the fund management activities and provides quality assurance. He is responsible for reviewing all key deliverables including financial reports prepared by the finance team. He is a category A signatory for the FSD Uganda bank accounts responsible for reviewing and authorising all online bank and cheque payments. The Finance Manager and Accountant are full time resources at FSD Uganda and are supervised by the FSD Uganda COO (Refer to section 1.9 for the finance structure). The Fund Manager reports to the FSD Uganda Board of Directors through the AFRC. The current fund management team structure is included as Appendix 13 of this manual. The key activities performed by the fund management team include:

1. Prudent management and investment of the financial assets and funds of FSD Uganda including control of FSD Uganda bank accounts.
2. Oversight of FSD Uganda funding activities and procurement of services to ensure these comply with relevant laws, funding agreement, relevant policies, procurement procedures and deliver value for money.
3. Oversight of regular financial reporting of FSD Uganda activities through quarterly and annual reports. A finance report shall be submitted to the AFRC for review after which the AFRC recommends to the BoD for approval. Approved reports shall be submitted to donors, government agencies and any other party or institution as required by law or funding agreement.
4. The Finance Manager is required to direct the day-to-day financial management, and ensure that procurement services are provided to FSD Uganda.
5. Maintain proper books of accounts.

1.8 Organisational structure



2 Key accounting policies

Definition and policy statement

Accounting policies are the specific principles, bases, conventions, rules and practices in preparing and presenting the financial statements. These accounting policies shall be applied consistently throughout the year and shall be followed when preparing financial statements of FSD Uganda.

General accounting policy

The financial statements shall be prepared in accordance with International Financial Reporting Standards (IFRS). IFRS has been selected as the accounting framework for FSD Uganda since it allows for greater comparability with similar private and public sector programmes.

2.1 Specific accounting policies

2.1.1 Reporting currency

The reporting currency used for FSD Uganda's financial statements shall be in Uganda Shilling (UGX). The reporting currency for donor reports shall be in accordance with the respective funding agreements.

2.1.2 Reporting period

The reporting period for the preparation of financial statements shall be financial year which runs from 1 April of one year to 31 March of following year.

2.1.3 Basis of accounting

The accruals basis of accounting shall be used consistently during the year. Under the accrual basis of accounting, FSD Uganda shall recognise revenue and costs, as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

2.1.4 Income recognition

FSD Uganda as a not-for-profit entity receives funds/income from development partners in form of Grants. The grant income shall be accounted for in accordance with ***IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.***

Grants shall be recognised when there is reasonable assurance that FSD Uganda will comply with the conditions of the grant as stipulated in the Grant/funding agreement and that grants will be received from the donor/funder.

Grants shall be recognised as income over the period necessary to match it with the related costs, for which it is intended to compensate on a systematic basis.

Grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in Income and Expenditure statement of the period in which it becomes receivable.

Initially grants received shall be recognised as deferred income and subsequently recognised in Income and Expenditure Statement over the period in which the related costs are recognised.

A grant relating to assets shall be presented as deferred income, or by deducting the grant from the asset's carrying amount.

Restricted funds

Funds held for a specific purpose are referred to as restricted funds. This may be declared by the donor when providing the funds to FSD Uganda or may result from the terms of an appeal for funds. The purpose for which FSD Uganda can lawfully use the restricted funds would be stated in the funding agreement. It is possible to have several individual restricted funds, each for a particular purpose.

Restricted funds fall into one of two sub-classes: restricted income funds or endowment funds. FSD Uganda as a not for profit entity may have restricted income funds that may be spent or applied within a reasonable period from their receipt to further a specific purpose, which may be to further one or more but not all of FSD Uganda's purposes.

When a tangible fixed asset is funded by way of a grant or donation, the accounting treatment of the asset acquired will depend on the circumstances of each case. In deciding whether the asset is categorised as restricted or unrestricted, FSD Uganda shall consider whether the terms:

- require FSD Uganda to hold the tangible fixed asset acquired on an on-going basis for a specific purpose; or
- are met once the specified asset is acquired, so allowing FSD Uganda to use the asset acquired on an unrestricted basis.

Unrestricted funds

Unrestricted funds are spent or applied at the discretion of FSD Uganda to further any of the company's purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds.

FSD Uganda may choose during the reporting period to set aside a part of the unrestricted funds to be used for a particular future project or commitment. By earmarking funds in this way, FSD Uganda sets up a designated fund that remains part of the unrestricted funds. This is because the designation has an administrative purpose only and does not legally restrict FSD Uganda's discretion in how to apply the unrestricted funds that they have earmarked.

For the proper administration, the accounting records must identify the transactions for each of the funds held. The items recorded must be analysed between unrestricted funds, restricted income funds and endowment funds.

Adoption of IFRS 15 - Revenue from contracts with customers (effective 1 January 2018)

FSD Uganda shall evaluate which, if any of its transactions are either fully or partially in the scope of *IFRS 15- Revenue from Contracts with Customers*. *IFRS 15* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018.

FSD Uganda applies ***IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*** when accounting for revenue since it is predominantly donor funded.

2.1.5 Expenditure recognition

Expenditure shall comprise of costs incurred directly for the activities of FSD Uganda and shall be recognized when incurred and not when actual payments are made.

2.1.6 Functional currency and translation of foreign currencies

(i) Functional and presentation currency

The functional and presentation currency shall be determined in accordance with ***IAS 21, the Effects of Changes in Foreign Exchange Rates***. FSD Uganda's financial statements shall be presented in Uganda Shillings, which is the Company's functional and presentation currency. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

(ii) Transactions and balances

Transactions denominated in currencies other than the Uganda Shillings, shall be translated to Uganda Shillings using the Bank of Uganda exchange rate ruling at the time of the transaction. Assets and liabilities shall be translated at the Bank of Uganda closing rate prevailing at period end.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at period-end exchange rates shall be recognised in the statement of comprehensive income.

2.1.7 Cash and bank balances

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents shall be stated at nominal value. If cash and cash equivalents are not readily available, this fact shall be taken into account in the measurement.

Cash and cash equivalents denominated in foreign currencies

Cash and cash equivalents denominated in foreign currencies shall be translated at the balance sheet date in the functional currency at the Bank of Uganda exchange rate ruling at that date.

2.1.8 Receivables and other receivables

Receivables shall be in accordance with ***IAS 32 Financial Instruments***. Receivables and other receivables comprise of unaccounted for grant advances to implementing partners, grant receivable from donors, travel advances, staff advances, prepayments and other recoverable amounts which arise during the normal course of business.

Receivables shall be carried at the original carrying amount less provision made for impairment losses. A provision for impairment shall be established when there is objective evidence that the FSD Uganda will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provisions shall be the difference between the carrying amount and the recoverable amount. Provisioning of receivables shall be in accordance with ***IAS 39 Financial Instruments: Recognition and Measurement***.

2.1.9 Stocks

FSD Uganda by its nature shall not recognise any stocks in the books of accounts. However, FSD Uganda shall maintain records of all stock items and shall monitor effective utilization of the items.

2.1.10 Plant and equipment

Plant and equipment shall be in accordance with ***IAS 16 Property, Plant and Equipment***. All purchases of items that are capital in nature (with a value below UGX 3,500,000 shall be expensed upon payment. FSD Uganda shall maintain a fixed assets register (FAR) of all these items.

All categories of plant and equipment shall initially be recorded at cost and subsequently stated at historical cost less depreciation and impairment losses. Historical cost shall include expenditure that is directly attributable to the acquisition of the items.

The cost of property, plant and equipment shall include expenditure that is directly attributable to the acquisition of the assets, any other costs directly attributable to bringing the assets to the location and condition for their intended use and the present value of estimated decommissioning costs.

Subsequent costs shall be included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance shall be charged to the statement of comprehensive income during the financial period in which they are incurred.

When parts of an item of property, plant and equipment have different useful lives, they shall be accounted for as separate items (major components) of property, plant and equipment.

Depreciation shall be calculated using the straight line method to write down their cost to their residual values over their estimated useful lives. In determining residual values, FSD Uganda shall use historical sales and management's best estimate based on market prices of similar items.

Useful lives of property, plant and equipment shall be based on management estimates and shall take into account historical experience with similar assets, the expected usage of the asset, physical wear and tear, technical or commercial obsolescence and legal restrictions on the use of the assets.

The estimated useful lives of property, plant and equipment shall be as follows:

Office equipment	3 years
Furniture and fittings	4 years
Computers	3 years

Useful lives and residual values shall be reviewed on an annual basis and the effect of any changes in estimate shall be accounted for on a prospective basis.

Assets shall be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment net income shall be recognised for the amount by which the assets carrying amount exceeds the recoverable amount. The recoverable amount shall be the higher of an assets fair value less costs of disposal and value in use.

The gain or net income arising on the disposal or retirement of an asset shall be determined as the difference between sales proceeds and the carrying amount of the asset, and included in operating profit.

2.1.11 Intangible assets

Intangible assets shall be in accordance with ***IAS 38 Intangible assets***. Intangible assets shall initially be shown at historical cost. Intangible assets shall be carried at costs less accumulated amortisation over their useful life. Amortisation shall be calculated using the straight-line method to allocate the cost of intangible assets over the period of the intangible assets. These costs shall be amortised over their estimated useful life of 3 years.

Purchased software that is integral to the functionality of the related equipment shall be capitalized as part of that equipment.

All Intangible items with a value below UGX. 3,500,000 are expensed upon payment in the year of acquisition.

2.1.12 Employee Benefits

(i) Pension obligations

The Company contributes to the statutory retirement benefit scheme established under the National Social Security Fund Act. This is a defined contribution scheme under which the company contributes 10% of the employees' salaries. The companies' contribution during the year shall be charged to the statement of comprehensive income. It shall be accounted for in accordance with ***IAS 19 Employee Benefits***.

(ii) Gratuity

FSD Uganda shall accrue 7.5% of the gross salary on a monthly basis as gratuity expenses for staff whose contracts contain gratuity benefits as specified by their contracts. Gratuity shall be paid in accordance with individual employment contracts. It shall be accounted for in accordance with ***IAS 19 Employee Benefits***.

This defined benefit plan is wholly funded by FSD Uganda. The payment of the funded benefits when they fall due shall depend on the company's financial position and availability of funds. Consequently, the expense recognised for a defined benefit plan shall be the amount of the contribution due for the period. The defined benefit liability shall be recognised in the statement of financial position.

2.1.13 Accounts Payables

Accounts payables shall be accounted for in accordance with **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**. Accounts payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable shall be classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they shall be presented as non-current liabilities and shall be carried at their original invoice value.

Accounts payables shall be accounted for as financial liabilities. Payables shall be recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Other payables shall be stated at their nominal values.

2.1.14 Related party transactions

Related party transactions shall be disclosed in accordance with ***IAS 24 Related Party Disclosures***.

FSD Uganda shall disclose key management personnel compensation in total and for each of the following categories: short-term employee benefits; post-employment benefits; other long-term benefits; termination benefits; and share-based payment benefits. For the purposes of defining related party transactions, key management shall include Directors and the FSD Uganda’s management team as defined in section 1.2 of this manual and close members of their families and entities controlled or jointly controlled by these individuals.

If there have been transactions between related parties, FSD Uganda shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosures will be made separately for each category of related parties and will include: the amount of the transactions; the amount of outstanding balances; terms and conditions and guarantees; provisions for doubtful debts related to the amount of outstanding balances; expense recognised during the period in respect of bad or doubtful debts due from related parties.

A statement that related party transactions were made on terms equivalent to those that prevail in arm's length transactions should be made only if such terms can be substantiated.

2.2 Financial risk management

In accordance with IFRS 7 Financial Instruments: Disclosures, FSD Uganda shall disclose information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms.

The FSD Uganda's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on minimising potential adverse effects on its financial performance, but the Company does not hedge any risks. Financial risk management shall be carried out by the finance department under policies approved by the Board of Directors.

Market risk

(i) Foreign exchange risk

FSD Uganda receives funds from development partners in foreign currency and is therefore exposed to foreign exchange risk arising from foreign exchange volatility.

FSD Uganda shall only get into foreign currency transactions where it has contractual commitments requiring payments in foreign currency and will only enter in to foreign currency arrangements in order to minimise any foreign exchange exposure.

Contracts free of currency fluctuations/ adjustments, shall be sought by FSD Uganda from suppliers, wherever possible, for foreign currency denominated contracts.

FSD Uganda shall endeavour to sign Grant Agreements and Supplier contracts in a currency that does not expose the company to foreign exchange risks. This shall include both local and international implementing partners and suppliers.

Any exposure by FSD Uganda to foreign currency risk shall be clearly identified by FSD Uganda in the procurement contract or grant agreement at its inception.

Credit risk

Credit risk may arise from unaccounted for receivables. Credit risk shall be managed by monitoring grants to implementing partners. Implementing partners shall be required to account for previous funds disbursed before additional funds are disbursed to them. The grant agreements shall expressly state that all funds disbursed shall be accounted for in accordance with the approved work plans and budgets.

Liquidity risk

Liquidity risk may arise when FSD Uganda has insufficient cash balances to meet its obligations as they fall due. FSD Uganda shall ensure that sufficient cash balances are maintained. The finance team and the COO shall monitor rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow.

Compliance risk

Non-compliance with policies, funding agreements, and laws

Compliance risk may arise when FSD Uganda does not comply with the approved policies, funding agreements and relevant laws and regulations. FSD Uganda shall ensure that monitoring is done to ensure compliance with policies of the organisation, funding agreements and relevant laws and regulations. The finance team and the COO shall monitor expenses incurred to ensure they are in accordance with the funding agreements, donor policies and requirements. In the event of any inconsistencies between the organisations policies and funding agreements, the latter shall prevail and in the event of inconsistencies between policies and/or funding agreements with laws and regulations, the latter shall prevail.

Non-compliance with Laws and Regulations (NOCLAR)

NOCLAR is defined as any act of omission or commission, intentional or unintentional, committed by FSD Uganda, including by management or by others working for or under the direction of FSD Uganda, which is contrary to prevailing laws or regulations. Therefore, if acts of NOCLAR are committed by implementing partners, contractors, agents or non-executive directors of FSD Uganda, the Code requires Professional Accountants (PAs) to take action. The laws and regulations to be considered are those that directly affect FSD Uganda's have a direct and material effect on financial statements or its business in a material or fundamental way.

The standard applies to all PAs including those PAs may raise NOCLAR matters such as those in management positions or on boards of directors, and regulators or other public authorities. PAs at FSD Uganda include the fund management team, COO, AFRC Chair, Internal and External Auditors.

Members of the profession have a responsibility to alert relevant authorities where illegal acts such as fraud, corruption, bribery or money laundering are suspected or uncovered during the course of their professional work.

Management must take appropriate and timely action in order to rectify the NOCLAR matters identified otherwise the matters should be disclosed to an appropriate authority if required by law or regulation, or where it is considered in the public interest.

2.3 Accounting estimates and Judgement

The Company shall make estimates and assumptions concerning the future when preparing its annual financial statements. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year shall be discussed including:

Impairment of receivables

Impairment of receivables shall be in accordance with ***IAS 39 Financial Instruments Recognition and Measurement***. A provision for impairment of receivables shall be established when there is objective evidence that the Company shall not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision shall be the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision shall be recognised in the statement of comprehensive income.

Plant and equipment

In accordance with ***IAS 16 Property, Plant and Equipment***, the useful lives and residual values for plant and equipment shall be reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. In determining residual values, the Company shall use historical sales and management's best estimate based on market prices of similar items.

Useful lives of property, plant and equipment shall be based on management estimates and take into account historical experience with similar assets, the expected usage of the asset, physical wear and tear, technical or commercial obsolescence and legal restrictions on the use of the assets.

Provisions

Provisions shall be recognised in accordance with ***IAS 37 Provisions, Contingent Liabilities and Contingent Assets***. FSD Uganda must recognise a provision if, and only if:

- a present obligation (legal or constructive) has arisen as a result of a past event (the obligating event),
- payment is probable ('more likely than not'), and
- the amount can be estimated reliably

The Company shall exercise judgement in determining the expected cash outflows related to its provisions. Judgement is necessary in determining the timing of outflow as well as quantifying the possible range of the financial settlements that may occur.

The present value of the Company's provisions shall be based on management's best estimate of the future cash outflows expected to be required to settle the obligations, discounted using appropriate pre-tax discount rates that reflect current market assessment of the time value of money and the risks specific to each provision.

3 General ledger ('GL')

Policy statement

A General ledger shall be maintained in which all transactions are recorded in detail and shall be kept in the form of a single computerised system at FSD Uganda offices.

3.1 Cut off procedures

The cut – off date for the month-end for management accounts shall be the last calendar day of each month. If this falls on a Saturday, Sunday or public holiday, it shall be the last weekday preceding the aforementioned.

All GL postings shall be finalised by the 5th day of the following month.

3.2 Reporting formats

The Accountant shall ensure that monthly management accounts are prepared in the prescribed formats as provided by the Finance Manager (FM).

The COO shall provide a standard technical reporting format to Grant recipients/Sub-grantees.

3.3 General ledger processing

The GL shall be maintained in UGX. The FM shall ensure that all foreign currency denominated transactions are translated at the ruling rate at the time of the transaction. All foreign denominated assets and liabilities shall be translated to UGX at the Bank of Uganda rate ruling at the period end.

The transactions shall be prepared by the Accountant and approved by the FM before posting into the GL.

Creation and/or deletion of the accounts shall be limited to FM with approval from the COO.

3.4 The trial balance ('TB')

A TB shall be extracted from the GL and shall form the basis for preparing the draft financial statements.

3.5 Chart of accounts

1 All staff of FSD Uganda shall comply with the Chart of Accounts (CoA) when coding transactions and it is the responsibility of the FM to maintain the CoA in order to meet the financial management requirements for FSD Uganda.

2 Additions or deletions of an account code from the standard chart of accounts shall only be done by the FM with approval from the COO.

3 The chart of accounts shall exhibit a logical framework to the compilation and presentation of financial transactions in the accounting system of FSD Uganda. An indicative outline of the chart of accounts is attached as **Appendix 1**

3.6 General Ledger Reconciliations

The FM must ensure that all balances in the GL are reconciled.

The Accountant shall reconcile the GL balances on a monthly basis to ensure that all risks relating to those accounts have been identified. A reconciliation schedule is a schedule which proves that the account balance represents only genuine assets and liabilities.

The FM and COO are responsible for reviewing and approving bank reconciliations, which must be prepared and approved by the 7^{th} day following month end.

The FM is responsible for reviewing and approving all other GL reconciliations by the 7^{th} day following month end.

Reconciliation schedules shall be prepared in the agreed format monthly. The reconciliation schedules shall be supported by back up evidence to enable the reviewer validate the balances. Examples of back up evidence to be maintained include:

Account	**Back up evidence to be maintained**
Bank balances	Bank statements from the Bank
Petty cash	Physical Cash Count schedules
Prepaid insurance	Insurance policies with coverage, period, Invoice/Receipt confirming prepaid insurance amount
Prepaid rent	Tenancy contracts setting out rent period, Invoice/Receipt confirming prepaid rent amount
Fixed assets	FA register, purchase documentation, physical verification papers
Intangible assets	Contractual agreements, receipts and related documentation
Project advances	Grant agreement, Copy of Bank transfer forms,

	Acknowledgement of receipt of Grant by Grantee
Payables/accrued expenditure	Audit engagement letters in the case of audit fee accruals, contractual agreement copies for other accruals, Invoices.
Other Liabilities	Transactional form, Contractual Agreement copies
Provision for Staff Costs e.g. Gratuity, Pension etc.	Agreements with staff, Gratuity / Pension Plans
Withholding Tax, Value Added Tax and Local Service Tax	Payments made on which tax has been deducted, tax returns filed, tax payment confirmations

The standardised reconciliation templates are included in Appendix 3 – Reconciliation templates.

The reconciliation schedule shall clearly include:

1. Date, nature of reconciling items or balances
2. Expected date of clearance
3. Whether the account is fully reconciled, If not, the issues for resolution
4. Whether any provisions are required to be created to cater for potential losses
5. Ageing, where applicable. Clear explanations must be provided where an ageing bucket contains an unexpected balance, particularly in the case of Receivables, Advances, Payables, and Other Liabilities among others.
6. They must be dated and signed by both the preparer and reviewers.

4 Levels of Authority

1 No person shall authorise a transaction or an event on behalf of FSD Uganda for which he/she has no authority and/or delegation of authority. All delegation of authority shall be conducted in writing with a copy to the ED, COO and FM.

2 The levels of authority within FSD Uganda shall be in accordance with the details in Appendix 2 – Delegation of Authority Matrix.

3 The AFRC shall review and recommend amendment, where necessary of appropriate limits of authority, The BoD shall approve the authority limits and the ED shall communicate (in writing) to all staff about the changes.

5 Management of bank accounts

Policy statement

All bank accounts shall be opened in the names of Financial Sector Deepening Uganda and shall only be opened or closed with the authorisation of the BoD in consultation with the ED, COO and FM.

5.1 Opening and closure of bank accounts:

1 The FM through the COO and ED shall submit a request to the Board for approval to either open or close a bank account. The request shall indicate the following information:

i. Proposed account title;

ii. The Name and Branch of the bank;

iii. Proposed signatories; and

iv. Reasons for either closing or opening a bank account

2 FSD Uganda shall comply with the normal procedure for opening / closing bank accounts as laid down by the respective bank.

3 Bank accounts may not be opened in a banking institution that has existed for less than 2 years.

5.2 Bank Account and Online Bank Signatories:

All bank accounts and online bank transactions shall only be operated with joint signatures of authorized signatories drawn from the list of signatories in Category "A" and Category "B" as shown below:

Category-A Signatories
(i) Fund Management Partner 1 (ii) Fund Management Partner 2
Category-B Signatories
(i) Executive Director (ii) Chief Operations Officer

Approvals shall be in accordance with Appendix 2 Delegation of Authority Matrix.

Conditions and restrictions

(i) In the absence of Fund Management Partner 1, Fund Management Partner 2 shall sign with either of Category-B signatories.

(ii) Category-B signatories cannot authorise together.

(iii) In all cases, all payments have to be checked, approved and signed by the FM.

5.3 Liquidity management

1 A reasonable liquidity cushion shall be maintained to ensure that FSD Uganda is able to respond to urgent funding requests readily and cope with inevitable variations from plan in disbursement cycles. The target minimum liquidity shall at least be the amount required to cover the equivalent of FSD Uganda projections for the next Quarter. The COO/FM shall confirm availability of funds based on donor commitments prior to committing FSD Uganda. In addition, quarterly cash flow forecasts shall match the expenditure to the funds available to ensure that liquidity risk is adequately managed.

2 The FM shall manage FSD Uganda's liquidity position to ensure that FSD Uganda has adequate funds to finance its operations at all times. In the case of a projected shortfall, the COO, ED and the Board shall be informed at least 2 months prior to the projected shortfall, to facilitate corrective action.

3 The FM and the COO shall ensure that FSD Uganda does not enter into commitments without adequate committed financial resources. The FM and COO shall conduct monthly reviews of the Bank balance versus the commitments in order to ensure there are adequate financial resources.

5.4 Cheque book security

1 Cheques shall never be pre-signed, but shall be signed only after details of the payee and payment amount have been completed and submitted to authorized signatories with support documents;

2 Cheques shall be used and or issued in sequence and following their serial numbers and shall be recorded both in the cheque register and bank books;

3 For each bank account, only one cheque book shall be in use at any one time;

4 Soiled or "void" cheque leaves shall be retained in the cheque stubs and fully used stubs shall be kept by the FM; and

5 All cheque books not in use shall be kept in a safe by the FM.

5.5 Electronic Funds Transfer (EFT)

1 The Accountant shall prepare the payment instruction to be issued to the relevant bank to facilitate an EFT and submit this to the FM for review. The payment instruction shall be based on an approved payment voucher.

2 All EFTs shall be reviewed and authorised by both FSD Uganda A and B signatories. This shall be done on the bank's online platform.

3 The FM shall ensure that the relevant bank has effected the EFT within 24 hours.

4 Payments denominated in Foreign currency shall be made from the respective foreign currency accounts to minimise foreign exchange exposure arising from retranslation of balances to another currency.

5 FSD Uganda negotiates with Barclays Bank treasury whenever funds are transferred from Pound Sterling to shillings or United States dollars accounts.

6 Budget preparation and monitoring

Policy Statement

The formulation of budgets shall be undertaken based on FSD Uganda's strategy, business plan and available financial resources.

6.1 Budgeting process and cash flow forecasts

1 The FSD Uganda budget shall be prepared annually. Refer to appendix 5- for budget template. The annual budgeting process shall commence no later than January, approved by the Board Directors by March and shall be completed and uploaded into the accounting system once approved by the Board.

2 The COO and ED shall liaise with the donors to obtain confirmation of the donor commitments for the year prior to commencing the annual budgeting process.

3 The COO shall prepare and send out budget circulars/guidelines to all pillar heads communicating the donor commitments and priorities.

4 The Pillar heads shall prepare work plans and the budgets for programme activities before commencement of the budgeting process. The administration budget shall be prepared by the FM in consultation with the COO. The work plan and budget shall be reviewed by the ED.

5 The FM shall consolidate the budget based on the approved work plans covering all the income and expenditure for both FSD Uganda's operational and programme activities. The budget shall be submitted to the COO for review, and the ED for review and endorsement.

6 The ED shall present the budgets as part of the ABP to the AFRC for review. The AFRC shall then recommend to the BoD for approval.

7 The COO shall ensure the approved budgets are submitted to the donors.

8 The COO shall communicate the approved budgets to all staff before the beginning of the financial year. It is the responsibility of the FM to import the budget into the accounting system.

9 Budget reallocations less than or equal to 10% shall be approved by the ED. Reallocations in excess of 10% shall be submitted to the AFRC for review. The AFRC shall then recommend to the BoD for approval.

10 Budget requests over and above the already approved budget shall be reviewed by the AFRC and approved by Board taking into account availability of funds.

11 The COO in collaboration with the FM shall prepare cash-flow forecasts which will be reviewed quarterly by the ED and annually by the AFRC.

i. The cash-flow forecasts shall be flexible to ensure that FSD Uganda maintains adequate liquidity at all times to allow for expected variation in timing of receipts and payments and to permit a reasonable level of unanticipated programme activity.

ii. The FM shall update the cash flow forecasts quarterly after taking into account the actual results and any changes to the programme activities.

12 The budgeting and forecasting process of resource allocation to programme activities shall be consistent with the expenditure as classified in the chart of accounts.

6.2 Budget revision

1 The FM shall consult the ED, COO, Director Programmes and Pillar heads during review of the budget performance and assess the need for budget re-allocations within the approved budget taking into account any changes in the objectives, goals and targets that were originally set and previous requirements and available resources.

2 The budgets shall be updated with the agreed upon revisions and submitted together with the budget performance report to the COO for review.

3 The COO shall submit all budget revisions less than or equal to 10% of a budget line to the ED for approval. Reallocations exceeding 10% shall be reviewed by the AFRC who then will recommend to the Board for approval.

4 The COO shall communicate the revised budget to all staff and the FM shall update the accounting system accordingly within 5 days.

6.3 Budget monitoring and reporting

1 The COO shall monitor the utilization and or consumption of the FSD Uganda budget and ensure that expenditures incurred are in line with the agreed activities in the work plans and that there are adequate funds to pay for these activities.

2 The FM shall prepare monthly management accounts and Quarterly financial management reports by the 10th of the month following the month/quarter. These shall include a comparison of the actual expenditure against budget, provide variance analysis and budget commentary. These shall be submitted to the COO by the 10th and 12th respectively of the following month to facilitate budget monitoring and evaluation.

3 The budget performance analysis reports shall be discussed by key management as defined in section 1.2 of this manual and reviewed by the COO and ED. On a quarterly basis, a finance report including a budget performance analysis shall be submitted to the AFRC for review who then will recommend to the BoD for approval.

6.4 Restricted funds

As described in section 2.1.4 of this manual, restricted funds shall only be used for the purpose agreed with the donor; they shall not be used to pay for any other costs and shall be tracked separately and carefully. The Finance team and COO shall:

1 Maintain records demonstrating a clear understanding of how donors expect FSD Uganda to spend restricted funds; and

2 Track expenditure and income very carefully for each project that receives restricted funds. If required by the donors as stipulated in the funding agreements, designated bank accounts shall be set up to avoid comingling of funds.

Monitoring of restricted funds shall be achieved by using a 'funding grid' and detailed project account and cost centre codes shall be included in the 'chart of accounts'.

6.4.1 Funding grid

A funding grid is a schedule used for income allocation. The funding grid is used to keep track of how much of the annual budget is funded and provides strategic overview of how FSD Uganda income from multi donors is allocated. The funding grid ensures

1 No activities are funded simultaneously by more than one donor – i.e. to identify instances of double funding.
2 Optimum use of restricted funds.
3 Decisions are made on how to allocate unrestricted funds.
4 Gaps in project funding are identified, especially overhead/indirect costs.

The FM shall maintain a funding grid which shall show in detail how all of income shall be allocated and spent in accordance with the overall budget. The funding grid shall be used to keep track of how much of the annual budget is funded. It shall be used to identify funding gaps and potential double funding.

A funding grid template is included as **Appendix 6** of this policy.

6.4.2 Indirect costs

The FSD Uganda indirect cost rate shall vary depending on the type of project, level of administrative effort required, cost structure of FSD Uganda, overall grant size, and extent of sub-awards/grants. The Indirect Cost Rate once approved for a specific programme shall apply to FSD Uganda, its implementing partners and sub-grantees.

The Indirect Cost Rate shall be determined by:
Indirect Cost Rate = Budgeted Indirect costs/ Budgeted Total Direct Costs

6.4.3 Coding system

A detailed coding system shall be used to categorise expenses to a cost type as well as to a specific restricted grant or pillar.

The FM shall be responsible for maintaining the coding system in the accounting system (MS Dynamics Navision).

7 Receipts

Policy statement

All requests for funds from donors shall be submitted to the donors in accordance with the funding agreements.

7.1 Request for funds

1 Donor funds shall be used to fund specific activities in accordance with the respective donor agreement. Where the funders do not prescribe specific funding activities, funds shall be used in line with the approved FSD Uganda budget, annual business plan and strategic plan.

2 The FM shall determine funding requirements on a quarterly basis in accordance with the relevant funding agreement(s), anticipated expenditure and cash-flow forecasts in order to maintain liquidity at the defined level.

3 The FM shall prepare a letter of request for funds to the donor in accordance with the terms and conditions in the individual funding agreement.

4 All letters of request for funds shall indicate the relevant bank details to which the funds shall be remitted.

5 The FM shall pass the requests to the COO for review and to the ED for approval prior to submission to the respective donor.

7.2 Receipting process

1 The FM shall verify the transfers from donors against the letter of request or the grant agreement to ensure that the correct amount has been credited to the bank.

2 All funds received shall be acknowledged by issuing letters of acknowledgement and written confirmation to the respective donor. Refer to Appendix -7 for funds acknowledgement form.

3 The FM shall monitor the transfers made under the funding agreements. In case of delays he/she shall follow up with the respective donor through the COO to facilitate payments to FSD Uganda.

4 All grant income shall be recorded as a liability. Grant Income will be recognised as earned on release from the Deferred Grant Income or the Intercompany Account.

7.3 Recording funds received

1 All funds received from the various sources shall be separately recorded in the books of accounts as guided by the chart of accounts.

Receipts

A chart of accounts shall list all the different categories of income with an account code and a description. Project codes shall be used to track and monitor different projects, donors or pillars.

A Chart of Accounts is included in the **Appendix 1** of this policy.

2 The Accountant shall verify receipt of funds as indicated on the bank statement after which, the FM shall prepare an acknowledgement letter to the donor for the funds. The letter shall be signed by the COO/ED.

3 The Accountant shall raise a serially numbered journal voucher for the various funds that are received and debited to the bank for posting of the receipts in the general ledger. The journal voucher shall be submitted to the FM for review and approval.

4 The FM shall verify the journal voucher for completeness and accuracy and sign the same as evidence of the review.

5 Upon approval of the journal voucher by the FM, the Accountant shall prepare the entries for the system which shall be posted and updated in the relevant ledger accounts of the accounting system.

6 The following journal entries shall be posted for booking the funds received.

a. Dr Bank account

b. Cr Deferred Income account

Upon receipt of funds.

8 Payments and Disbursements (Cheque, EFT, Cash)

Policy statement

All payments for the operations and activities of FSD Uganda shall be duly authorised against availability of funds and approved budgets.

8.1.1 General guidelines

1 The FM is responsible for receiving and processing all payment requests under contracts, funding agreements or other obligations incurred by FSD Uganda.

2 All payments shall be made expeditiously to recipients (within 14 working days) and receipt of payment must be confirmed in writing. Where a claim takes more than 14 days from receipt to raising an instruction for payment (issuance of a cheque or other instruction to pay), the FM shall raise an exception report explaining the reason for the delay, sent to the COO. The exception report should be dated, provide details of payments including Invoice Number, Invoice Date, Payee, Description of Services and Reasons for delay.

3 All payments other than petty cash expenditure shall be made by cheque or by bank EFT. Details of the petty cash threshold are included in section 9 of this manual.

4 Payment for transactions denominated in foreign currencies shall be made from the respective foreign currency accounts. FSD Uganda shall also maintain an account in Uganda Shillings (‘UGX’), to facilitate the payment of UGX transactions.

5 All payments, other than to sub grantees, shall be supported by a local purchase order (LPO). The LPO shall be serially numbered and all invoices to FSD Uganda for payment shall quote the LPO number.

6 A payment voucher shall be raised for all payments made by FSD Uganda. All payments shall be adequately supported with relevant documents such as approved LPO, Delivery Note, Goods Received Note (GRN), final reports from consultants and copy of the contract where necessary.

8.1.2 Payments to vendors and consultants

Approval of payment

1 Invoices shall be received by the Accountant who must review them to confirm the correctness of the details such as invoice date, the amount and the name of the entity invoicing, and description of services. The Accountant shall then submit the invoices to the Finance Manager and thereafter the COO for approval as per the Level of Authority prior to processing the payment.

2 Project related invoices such as those issued by consultants shall be reviewed by the pillar heads and Director Programmes who shall confirm that the services have been

delivered as per the contract, after which approval shall be made by the COO in accordance with the Levels of Authority and the payment processed.

3 Administration related invoices such as supply of office utilities shall be approved by the COO as per the Levels of Authority.

4 The Accountant shall prepare the payment vouchers that shall include such details as the payee, amount to be paid both in figures and words, goods supplied or services rendered or provided. The details must be consistent with those on the approved invoice and the LPO.

5 The Accountant shall attach to the invoice the appropriate supporting documents such as LPO, request for proposal, bid evaluation report, quotation, delivery notes, goods received notes, terms of reference, consultancy agreement and consultancy report. The Accountant shall forward the payment voucher and the payment cheque for review and approval to the FM.

6 The FM shall review the payment vouchers for completeness and authenticity. The FM shall confirm that the invoices are appropriately supported as stated above, validate the payment voucher against the invoice, the purchase order or contract terms to confirm details such as, the invoicing entity, the amount invoiced, whether the invoice is due for payment.

The FM shall also confirm that appropriate tax deductions have been made. For instance all foreign contractors/consultants should be charged reverse VAT of 18% of the invoice amount. All local suppliers with the exception of those exempt as indicated on Uganda Revenue Authority portal should be charged 6% WHT and foreign suppliers 15% WHT.

7 The payment voucher with all the supporting documents shall be submitted to the COO for approval in accordance with the Level of Authority.

Payment by online Banking

1 Wherever possible, FSD Uganda shall use online banking to process all its payments and funds transfers. The exception to this is if the online banking system is off as confirmed by the Bank.

2 The Accountant shall initiate payments on the online platform provided by FSD Uganda bankers. The FM shall review the initiated payments for completeness and accuracy. The COO shall approve the payment vouchers.

3 The payment vouchers with all supporting documents shall be submitted to the designated FSD Uganda bank signatories for authorisation of the initiated payments. All signatories as defined in section 5.2 of this manual shall have access to the online platform.

4 The Accountant shall send an email to all suppliers and or /services providers requesting them to confirm receipt of funds.

5 Suppliers and service providers shall issue a receipt to FSD Uganda acknowledging the funds paid which should include the payment date and details of the payment.

Payment by cheque

1 FSD Uganda shall use a cheque for payment when withdrawing petty cash and travel advances and when the online banking system is off confirmed by the bank.

2 Cheques shall be prepared for payments below UGX 10 million (threshold provided by the bank). Payments above UGX 10 million shall be processed by EFT.

3 The Accountant shall prepare the cheques based on the payment vouchers approved by the COO. The FM shall review the cheques for completeness and accuracy.

4 The cheques and the payment vouchers, with all supporting documents, shall be submitted to the designated FSD Uganda bank signatories for authorisation.

5 The Accountant shall issue cheques to suppliers and or services providers for processing who shall confirm receipt of the cheques by signing on the payment voucher.

6 Suppliers and service providers shall issue a receipt to FSD Uganda acknowledging the funds paid which should include a confirmation of the cheque number and details of the payment.

8.1.3 Disbursements to implementing partners (Sub awards)

1 Initial disbursement:

The Accountant shall check the requisition against the approved project budget and the terms and conditions as per agreements to confirm whether the requisition is in order.

The Accountant shall prepare a payment voucher for the disbursement supported by appropriate documents such as approved disbursement requests indicating the bank account to which the funds shall be remitted, a copy of the signed grant agreement with all the respective attachments such as the approved project budget and work plan, among others.

The Finance Manager shall review the prepared disbursement to confirm it is adequately supported.

The FM shall submit the payment voucher and related support documents to the COO for review and after ED for approval in line with the Delegation Authority Matrix.

The approved payment vouchers are then submitted to the Fund Manager Partner for review and approval of the disbursement.

The payment shall be drawn from the appropriate bank account through online banking with the exception of when the system is off will the payment be made by cheque.

On transfer of the funds, the recipient should be notified accordingly through an email. In turn the implementing partner shall be required to acknowledge receipt of the funds in writing.

2 Subsequent disbursements:

Subsequent disbursements shall only be made after a review of the prior disbursements and approval of subsequent disbursement by the Pillar heads.

The disbursement payment voucher shall be approved for payment by the COO after recommendation for payment by Pillar heads.

The payment shall be drawn from the appropriate bank account through online banking with the exception of when the system is off will the payment be made by cheque.

On transfer of the funds, the recipient should be notified accordingly through an email. In turn the implementing partner shall be required to acknowledge receipt of the funds in writing.

8.1.4 Payments documentation

All payments shall be fully supported with the relevant supporting documents as applicable. The table below provides a listing of the type of support documentation to be maintained:

Grant	Bank	Expenditure
• Signed grant agreement • Approved project work plan • Approved detailed project budget • Approved disbursement request • Approval for project changes • Review financial report of the previous disbursement	• Bank details e.g. account number, bank name, signatories • Acknowledgement of receipt of funds • Bank reconciliations • Details of funds transferred from one account to another	• Comparative quotations • Signed supplier/consultancy contract • Local Purchase Orders • Purchase Invoices • Goods Received Note • Receipts • Time sheets • Attendance lists • Activity reports • Employment contracts • Log books • Payment Vouchers • Payroll & statutory returns

Payments and Disbursements

		• MOU with sub-grantee • Clearance of the payment by the respective project staff for project related expenses • Consultancy report. • Bid evaluation report where applicable.

Refer to Appendix -8 for payment voucher form and Appendix – 10 for disbursement request.

9 Petty Cash management

Policy statement

FSD Uganda will use an imprest system to replenish petty cash. Petty cash shall be used to settle small payments not exceeding UGX 200,000. A petty cash float of UGX 2,000,000 (Two million Uganda Shillings) shall be maintained at the office premises.

9.1 Petty cash management

1 The Accountant is responsible for the maintenance of petty cash. Petty cash shall be kept separate from all other cash resources and should only be issued from the petty cash box or safe and access to the petty cash box or safe shall be restricted to the Accountant.

2 Petty cash replenishments shall be made upon utilization of at least 75% of the funds and accountability of actual expenditure incurred from petty cash.

3 In no circumstances shall petty cash be lent out or be borrowed from other sources to make petty cash payments.

4 The Accountant shall maintain a petty cash book that includes the following;

- The opening balance;
- All replenished amounts received;
- List of payments made, together with the duly approved serially numbered petty cash vouchers; and
- The daily closing balance.

5 Petty cash book maintained in an electronic spreadsheet shall be printed and filed at every replenishment.

6 The petty cash float or replenishment shall be approved by the FM.

7 Petty cash payments shall only be paid after submission and approval of a duly approved petty cash voucher containing the following information:

- Reason for the claim;
- Original supporting documentation, including invoices and or receipts, as applicable;
- Payee;
- Amount of petty cash in words and numerals; and
- Signatures of the payee, preparer, person checking and approving authority.

8 Petty cash counts shall be performed by the Accountant and FM monthly on the last working day of the month. The results of the count shall be documented in a cash

count certificate. The Petty cash reconciliation shall then be prepared by the Accountant and reviewed by COO by the 7th day following month end.

9 Reconciliations of the cash on hand with the cashbook balance shall be carried out by the Accountant at the time of the cash count. Any differences arising shall be investigated and reported to the Finance Manager for appropriate action.

The Finance Manager shall carry out surprise cash counts at any time and when deemed necessary. All cash count certificates shall be coded, dated and signed to provide for adequate audit trail.

9.2 Petty cash replenishment

1 The Accountant shall prepare and submit the petty cash count certificate indicating the amount to be replenished together with the reconciliation and original support documents to the FM for review.

2 The approved petty cash requisition shall be submitted to the COO to approve the payment voucher.

3 The payment voucher is then submitted to the ED and Fund Management Partner who authorises payment.

4 Following approval and authorisation of payment, the petty cash replenishment cheque is written in the names of the Accountant who draws the cash from the bank. The Accountant acknowledge receipt by signing on the payment voucher.

5 The petty cash transaction journal entries are generated by the Accountant and posted by the FM into the General Ledger.

Refer to Appendix-4 Cash Count Certificate and Appendix -9 for petty cash payment voucher.

10 Business expense advances

Policy statement

Business expense advances shall only be requested and drawn to support the activities and operations of FSD Uganda and shall be fully accounted for, within five working days of completion of the assignment for which they were disbursed.

10.1 General guidelines

1 Business advances shall be drawn against an Advance Request Form (ARF) signed off by the respective supervisor, to which the relevant supporting documents such as approved activity plan and or budget line are attached.

2 The ARF shall be reviewed by the FM and approved by the COO. If the request is submitted by the FM, the COO shall approve the request.

10.2 Procedures

1 Business expense advances shall be paid to staff for expenditure to be incurred for activities of FSD Uganda that shall include but not limited to staff accommodation, meals and transport costs.

2 Business advances shall be drawn against an ARF, to which the relevant supporting documents such as approved activity plan and budget must be attached. The ARF shall be authorised by the Pillar head.

3 The completed ARF shall be forwarded to the COO for approval. The ARF for the COO shall be approved by the ED. ED Business expense advances primarily relate to travel since FSD Uganda maintains business arrangements with approved service providers such as Hotels and Restaurants in Kampala. The travel plan for the ED shall therefore be approved by the FSD Uganda Board Chair.

4 The ARF shall provide the following information;

i) Reason for the business advance, the person requesting for the advance and the amount.

ii) **For duty travel:** duration of the trip or itinerary, the rate of per diem as approved by the HRCC in the Travel policy

iii) **For workshops:** the list and number of participants, the respective arrival and departure dates, and the applicable per diem rate per person per night.

10.3 Business Advances processing

1 Before an advance is processed, the Accountant shall ensure that:

i) The ARF, together with the supporting documents, are forwarded to the FM for review before the Accountant prepares a payment voucher and cheque or payment instruction. The procedures for payments shall be followed.

ii) Ensure that the advance requested for is approved by the COO;

iii) Confirm that the amount requested does not include funds for components to be paid or already paid directly by FSD Uganda such as flight ticket costs and consultants' fees. If these are included, the request shall be adjusted accordingly.

2 Confirm availability of funds for the proposed activities.

10.4 Accountability

1 All Business advances shall be fully accounted for within five working days of completion of the assignment for which they were disbursed. Advances not accounted for within the stipulated time shall be deducted from the staff's salary in the month that the accountability falls due.

2 The accountability properly supported by original accountability documents shall be submitted to the Accountant and the FM for review and expensing.

3 In case of unspent amount balances, the FM shall confirm that the amount is fully returned. The returned cash is then banked by the Accountant and the Bank Deposit slip attached to the accountability

4 The Accountant shall prepare the journal vouchers which shall be reviewed and approved by the FM who then posts into the Accounting system (within 5 working days of receipt of accountability).

5 The Accountant shall circulate to the FM and COO on a monthly basis a list of all pending accountabilities from staff for review and action.

6 All unaccounted for balances shall be recovered from the respective staff salary within a month of receiving the advance.

10.5 General guideline on the use of credit cards and prepaid debit cards

1 Prior to incurring expenditure, an ARF with the necessary supporting documents shall be approved by the COO. The ARF for the COO shall be approved by the ED and the travel plan for the ED shall be approved by the BoD.

2 The FSD staff shall spend in accordance with the business requirements as per the ARF approved by the COO.

3 The card shall have an expenditure limit for each individual. Two credit cards shall be maintained one for the ED and another for the COO and staff.

4 All staff shall be required to sign off an undertaking prior to using the cards confirming that the cards shall only be used for business related purposes. Failure to do so shall result in disciplinary action against the staff.

5 All card expenses shall be properly supported with the necessary support documents.

6 The card shall not be used to purchase disallowed expenses such as personal expenses and alcoholic drinks.

7 The accountabilities of cards shall be done in accordance with Section 10.4 above – Accountability of Advances.

8 All cards not in use shall be kept under lock and key by the COO.

Refer to appendix- 11 for Advance Request Form

11 Payroll processing

Policy statement

FSD Uganda shall prepare a monthly payroll that provides for an individual's earnings including salaries, allowances and benefits, deductions and net pay. Salary payments shall be made through bank accounts that are provided by employees in writing.

11.1 General guidelines

1 The COO is responsible for maintaining personnel records for all employees including the staff member's bank details to which their salaries shall be credited.

2 The Accountant shall prepare a monthly payroll by the 22nd day of each month and payment of salaries shall be effected by the 25th day of the month. The monthly payroll shall include;

a) Gross pay

b) Allowances benefit payables

c) Deductions for employee contribution for NSSF ;

d) Employer's NSSF contribution (10% of basic pay)

e) PAYE deductions

f) Local service tax

g) Net pay due to employee

h) Salary advances to be recovered

i) Net amount payable to employees.

3 The COO shall be responsible for making changes to the standing information of the payroll. Some of the changes may include, appointments, dismissals, resignations, salary review resulting from increase/decreases, and any other authorised changes.

4 All non-permanent changes to the payroll shall only be made by the Accountant after approval by the FM and COO. Such changes may include, non-permanent allowances, overtime payable, recoveries of unaccounted for operational advances and salary advances.

5 The Accountant shall prepare the payment vouchers and payment instructions to the banks. The procedures for payment instructions under Ref 8.1 shall be followed.

6 All statutory deductions such as PAYE, NSSF, and LST etc. shall be remitted, together with the returns filed thereof, to the respective authorities by the due date. Within 15 days after the end of month, for PAYE and NSSF, as required by Income Tax Act and November 15th each year for all LST that is due.

7 The FM shall issue payslips to all employees reflecting the individual payroll details. Any complaints by employees regarding the payslip's information shall be addressed to the COO and resolved immediately.

8 The Accountant and FM shall check and ensure the payroll transactions are posted accurately and timely to the General ledger every month.

11.2 Payroll – Advances (Salary advances)

1 FSD Uganda donor funds shall not be used to pay advances to staff.

12 withholding Tax and Value Added Tax

1 Withholding Tax (WHT) and Value Added Tax (VAT) shall be deducted in accordance with the Uganda Tax laws and regulations.

2 The FM and the COO shall be responsible for ensuring that all tax deductions are remitted to the Uganda Revenue Authority within 15 days after the end of month in which the deductions are made.

3 The FM and the COO shall also ensure that the WHT and VAT tax returns are filed within 15 days after the end of month in which deductions are made. The documents supporting payments, tax deducted and related computations shall be maintained by the FM for five years after the end of year to which the records relate as is required by the tax laws.

WHT shall be in accordance with the Income Tax Act. WHT shall be considered when making payments for Professionals fees and Ugandan-source service contracts.

- For every non-resident person deriving income under a Ugandan source service contracts. The tax is charged at 15% of the gross amount of payment. The FM at the time of making the payment should withhold 15% of the gross invoice amount before effecting payment.
- FSD Uganda at the time of paying management or professional fees to a resident professional is required to withhold tax at 6% of the gross amount of payment. The FM at the time of making the payment should withhold 6% of the gross invoice amount before effecting payment. Excluded from this provision are professionals whom the Commissioner is satisfied have regularly complied with the obligations imposed by the Income Tax Act, and those professionals ordinarily engaged as payroll employees.
- Management or professional fees arising in a Contracting State which are derived by a resident of any of the other Contracting State may be taxed in that other State. However, such management or professional fees may also be taxed in the Contracting State in which they arise, and according to the law of that State; but where the beneficial owner of such management or professional fees is a resident of the other Contracting State, the tax so charged shall be fixed at 10% of the gross amount of the management or professional fees. The FM at the time of making the payment should confirm that there exists a double tax agreement with Uganda and withhold 10% of the gross invoice amount before effecting payment.

Value Added Tax shall be charged in accordance with the Act on the supply of any imported services by FSD Uganda other than exempt services. The FM shall charge 18% of the gross invoice amount before effecting the payment.

13 Reporting

FSD Uganda shall maintain its books of account in accordance with the established laws, accounting policies and the applicable regulatory framework. The financial statements shall be prepared in accordance with, and comply with, the Act and IFRS. FSD Uganda shall prepare its financial statements under the accruals basis of accounting, except for some specific donor agreements that may require application of the cash basis of accounting. FSD Uganda's financial year shall run from 1st April to 31st March of the following calendar year.

13.1 Monthly management accounts

The FM shall prepare monthly management accounts by the 10th day following month end that shall be discussed with key management including the ED, Director Programmes, COO, and pillar heads as described in section 1.2 of this manual. The steps below describe the month-end reporting process:

i. The monthly financial reports and the budget performance analysis report shall be completed and submitted to key management by the 10th of the following month.

ii. The Accountant will carry out final checks on accounting system inputs for the month and close the accounting system by close of day on the last working day of the month.

iii. Month end procedures shall be carried out by 5th of the following month. The FM shall review the accounting system control reports to verify that the month end procedures have been effectively done. The month end process is as described below:

Between the 1st and 5th of the following month, the Accountant will extract the detailed income and expenses file and ensure that all month end journals have been posted. These include the depreciation journal, payroll journal, accrual for current month, accrual for relevant costs already committed but not approved, adjustments for routine accruals and prepayments such as office rent, telephone costs, utilities, bank interest etc. The Accountant will look out for the following:

a. Unusual monthly movements by account code – e.g. significantly higher than normal, or lack of movement on account that should have transactions;

b. Significant variances between budget and actual, both period movement and year to date;

c. Entries are correct by entity (to avert statutory accounting delays at month end);

d. Entries are correct by account code;

e. Adequate description and codes to facilitate both management and statutory analysis;

f. Analysis of the bank charges and exchange differences.

iv. The FM will carry out an analytical review of the P&L accounts, comparing budget against actual, investigating key variances, and preparing the notes to accompany the

Monthly Report. The notes are prepared on a cumulative basis, building on narrative from previous months.

v. The FM will advise the Accountant of any necessary adjustment journals required, and, after all accruals and prepayments are done, run the cost allocation routines for shared costs.

vi. Between the 25th and 5th of the month, the Accountant shall systematically review, reconcile and sign off the balance sheet accounts. Reconciliations (and, were required the aged analyses) for all balance sheet accounts are prepared by the respective Accountant, and reviewed and signed off by the FM. The approved printed schedules and relevant supporting documents should be filed in the month end file. The FM will advise the Accountant of any balance sheet adjustments which will impact on the P&L – e.g. exchange differences and provisions. The FM is responsible for ensuring that:

   a. All balances carried forward are valid and recoverable or payable;
   b. Balances are in the correct entity;
   c. Account allocation in accounting system is up to date and reconciliation schedules are extracted directly from accounting system;
   d. Foreign exchange valuation – both management and statutory – is carried not less than once a quarter;
   e. Adequate follow up is made throughout the month to pay or recover balances, being particularly alert to the aged analysis;
   f. The FM will aim to complete the balance sheet by close of day on the 5th of the month. Any adjustments must be passed and the final balance sheet by close of day on the 5th;
   g. The Accountant will extract the month's P&L transactions and update the Budget/Cash flow performance analysis.

Refer to Appendix – 12 for monthly performance analysis.

13.2 Quarterly Financial Management reports

1 The FM shall prepare quarterly financial management reports by the 10th day following quarter end with explanations for variances between the approved budget and cash flow forecast and actual expenditure. The COO shall provide material information to the FM in preparing the report and commentary.

2 The Quarterly Financial Management reports shall be reviewed by the Fund Management Project Manager and Quality Assurance Partner for quality before they are presented to the AFRC.

3 The COO shall review the quarterly financial management reports and submit these to the AFRC for review at the quarterly meetings. Any exceptional issues must be highlighted in this report and the AFRC shall inform the Board accordingly.

4 The quarterly financial management reports shall be used to make any recommendations for strengthening financial management procedures to increase efficiency or reduce vulnerability of FSD Uganda to fraud of other losses.

13.3 Annual Reports

1 The COO shall contribute to preparing the annual general report along with the Programme team and Communications Specialist and submit this to the ED and the BoD within three months after the end of the financial year. The report shall cover qualitative as well as quantitative factors likely to affect future performance of FSD Uganda and shall include:

i. The ED’s summary/ foreword
ii. The FSD Uganda approach
iii. FSD Uganda strategy
iv. The performance of the FSD Uganda pillars with key highlights
v. The FSD Uganda portfolio
vi. Plan for the future
vii. FSD Uganda management
viii. Key financial results
ix. The Income and Expenditure statement the year
x. The balance sheet for the year

13.4 Annual Financial statements

1 The FM shall prepare annual financial statements within one - month after the end of each financial year.

2 The annual financial statements shall comply with the requirements of the Act and IFRS and shall be subject to audit by external auditors. The accounts shall be supported with a full set of working papers, P&L analysis schedules and balance sheet reconciliation schedules.

3 For specific working files for the annual financial statements, the following broad recommendations are made:

a) the files should be set up in such a way that they can be easily updated simply by extracting the trial balance from the Accounting system, from which all the relevant workings will be picked up. *Please note that International Financial Reporting Standards are constantly evolving. The FM must ensure that the most current IFRSs are complied with.*

b) the files should be designed so as to produce all the required IFRS disclosure notes.

c) the Statement of comprehensive income analysis should have been prepared during the course of the year to speed up the yearend reporting process and ensure that all transactions are posted to the right accounts for statutory purposes.

d) the Statement of Financial Position should simply be extracted from the yearend balance sheet schedules which were prepared for management reporting, with reviews done against the reconciliations to ensure that balances are correctly reflected.

e) statutory reconciliation files such as billings to VAT return, staff cost to PAYE returns, WHT schedule and LST should be maintained on a monthly basis throughout the year to facilitate year end reconciliations.

f) a reconciliation between the financial statements and management accounts is required for audit trail purposes.

g) the Tax advisor must review the tax computations. It is recommended that tax health checks are carried out during the year to ensure compliance and proper filing of records in preparation for an audit, whether by an internal or external auditor.

h) relevant legal documentation must be maintained in a permanent audit file in an orderly, easily accessible manner.

i) a file shall be maintained showing all the re-runs of the trial balance, in order to maintain an audit trail / history of adjustments from the start to completion of the accounts. The last journal number at the time of each TB run should be recorded to facilitate identification of adjustment entries from one run to the next.

4 The draft annual financial statements shall be reviewed by the Fund Management Project Manager and Quality Assurance Partner before being presented to the AFRC.

5 The FM shall present the draft annual financial statements to AFRC for approval before the end of year financial audit.

6 The draft annual financial statements shall be approved by AFRC and shall include but not limited to:

i. Report of Directors
ii. Statement of Management Representation
iii. Independent Auditors report
iv. Statement of financial position
v. Statement of comprehensive income
vi. Cash flow statements
vii. Notes to the financial statements
viii. External Audit arrangements
ix. General principles

13.5 External Audit

Policy Statement

The members of the company at their Annual General Meeting (AGM) shall appoint an independent external auditor to carry out an external audit in accordance with International Standards on Auditing ('ISAs') and to express an independent opinion on whether FSD Uganda's financial statements give a true and fair view of books of account. The external auditor shall:

1 identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

2 obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

3 evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

4 conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern; and

5 evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

13.5.1 General guidelines

1 The external auditors to be appointed shall be selected from audit firms certified by the Institute of Certified Public Accountants of Uganda. The procurement of external auditors shall follow the procedures regarding procurement of services under the procurement manual.

2 The COO shall submit to the AFRC terms of reference for the procurement of the external audit for their review prior to commencement of the procurement.

3 The AFRC shall be responsible for selecting, determine the terms of reference (TOR), and recommending appointment of external auditors to the BoD for approval.

4 The external auditor's performance shall be assessed by AFRC.

5 The FM shall prepare the draft financial statements for the annual audit that fully correspond to the trial balance that will be availed to the external auditors on the commencement of the external audit work.

6 The FM shall ensure that the financial statements are supported with all the relevant schedules before the commencement of an external audit. A set of these financial statements and the supporting schedules shall be reviewed by AFRC before commencement of the external audit exercise.

7 The FM and all the staff of FSD Uganda shall provide information and/or explanations as requested by the external auditors.

8 The FM shall monitor the progress of the audit to ensure that the deadline is met. The audit shall be completed by the end of the third month (June) following the year under audit.

9 The FM shall receive the draft audit report together with the management letter from the external auditors. The draft reports shall be discussed with executive management staff as described in section 1.2 of this manual and comments provided to the external auditors.

10 A close out meeting with the external auditors, executive management and the FM will be held before the final report is issued and presented to the AFRC for review.

11 The Auditors will present the audit report to the BoD for approval.

12 The approved audited reports shall be signed off by the Board Members and Company secretary. Copies shall be circulated by the COO to the relevant stakeholders.

13 The external auditors shall be responsible for presenting the audit report at the AGM.

13.6 Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve a company's operations. It helps FSDU to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Internal Audit provides audit and consulting services to management in accordance with the International Standards for the Professional Practice of Internal Auditing and the internationally recognised best practice.

Role

The independent Internal Audit Firm shall be responsible for providing assurance to the Board through the AFRC, on the arrangements for risk management, internal control, governance and value for money. The firm shall also assist management to evaluate and report on the effectiveness of these arrangements.

The internal audit work shall include examining, evaluating and monitoring the adequacy and effectiveness of operational and internal controls established to ensure that FSDU's activities and operations mitigate risk and ensure value for money in all areas. Responsibility for internal control rests fully with FSDU management to ensure that appropriate and adequate arrangements are established

Scope

The scope of the internal audit shall include all the activities and operations of the company i.e. governance, pillars, finance, operations, management, information technology and implementing partners etc.

Operational Independence

The AFRC shall determine the policy framework in which the Internal Audit Firm operates. The ED shall have the administrative responsibility for ensuring the Internal Audit Firm performs the agreed tasks. The Internal Audit Firm shall have operational independent within FSDU and for that purpose:

1. shall report directly to the AFRC;
2. shall have access to the FSDU Board via AFRC;
3. shall have no executive or managerial powers, authorities, functions or duties except those relating to the management of the internal audit services;
4. The procurement/appointment of the Internal Audit shall be done by AFRC and in accordance with the procurement procedures of FSD Uganda. AFRC shall review the terms of reference of the Internal Auditor prior to the procurement process and shall be responsible for interviewing the Internal Auditors and recommending appointment to the BoD for approval.

Responsibilities

The Internal Audit Firm shall review FSDU's risk management framework, risk plans, financial policies, procedures, records, accounts and plans and appraise the effectiveness by which FSDU meets its objectives. The Firm shall review the adequacy of internal controls necessary in all areas and will seek to confirm that management have taken the necessary steps to achieve these objectives, by implementing the internal controls.

The terms of reference for Internal Audit shall be determined by the AFRC.

The Internal Audit Firm shall be responsible for providing relevant, reliable and sufficient audit evidence of the adequacy and effectiveness of operational and other internal control arrangements which will allow management to evaluate the findings and confirm the level of assurance which emerges.

14 Administration

14.1 Stores management

FSD Uganda by the nature of its business shall not have any inventory and will therefore not maintain an inventory management system. The Administration Officer shall however maintain a register of all items that are purchased in bulk (e.g. stationery) for control purposes. This stationery may include but is not limited to pens, box files, photocopying paper.

14.2 Filing and record keeping

1. Proper filing system shall be maintained and all FSD Uganda documents securely kept. The Administration Officer with guidance from the COO shall be responsible for establishing a filing system for FSD Uganda. This shall include but not limited to putting in place a filing index to guide staff on how to file the documents
2. FSD Uganda shall use clearly labelled files for the filing of similar documents. In case of electronic filing, folders and files shall be clearly labelled to reflect the content in the folder and/or file. File folders for similar documents shall be created on the server by the Accountant.
3. The Administration Officer and the Information Technology Consultant shall be responsible for saving soft copies of Important documents such as Memorandums of Understanding (MoU)/Contracts, correspondences etc. However, the respective staff shall have the obligation to ensure that documents are logically filed to facilitate ease of access and retrieval.
4. The Administration Officer shall maintain a filing register which shall be used to record both incoming and outgoing documents.
5. All important and /or confidential documents such as Original donor agreements shall be kept under lock and key in the ED’s office.
6. The COO shall periodically archive files that are no longer actively used. Records/documents shall be kept for a minimum of 7 years or such period as stipulated by the Company law of Uganda.
7. The Program Officer shall be responsible for the filing of all the records related to programme activities.

14.3 Vehicle management

1. FSD Uganda shall maintain an efficient and effective vehicle management system that promotes its strategic objectives.
2. All the FSD Uganda vehicles shall be registered in “FSD Uganda” names unless the donors stipulate otherwise in writing.
3. All the vehicles shall be driven by authorized personnel and shall meet all the requirements of the Ugandan traffic laws.
4. All the vehicles shall operate in a pool under the direct supervision of the COO.
5. A vehicle movement log book shall be maintained and completed by the driver after the trip and endorsed by the user of the vehicle. This shall be submitted to the Administrator Officer for review and monitoring fuel consumption.
6. The Accountant shall maintain a vehicle register which will be used to record the request for transport. The vehicle register will have the following:
    1. Requester’s name
    2. Purpose of the trip & destination;
    3. Date requested;
    4. Date when required;
    5. Departure and arrival times;
    6. Number and name of passengers;
7. The Administration Officer shall allocate the vehicle to the requester depending on the availability of the vehicle and the urgency of the activity to be undertaken.

14.3.1 Fuel Management

1. Fuel cards shall be used on an imprest basis with a float of 1 million. . Each fuel card shall be linked to a vehicle registration number and must not be used to purchase fuel in relation to another vehicle.
2. FSD Uganda shall sign an agreement with designated fuel stations for purposes of fuelling FSD Uganda vehicles.
3. FSD Uganda shall operate a fuel card system.
4. At the end of each month, the FM shall obtain a fuel report/invoice from the fuel station and reconcile it with the travel log. The travel log shall include the mileage, destination and purpose of the travel. Any discrepancies noted shall be investigated and appropriate action taken.

5 The FM shall monitor the monthly consumption per vehicle and compare it with the established consumption rate.

14.3.2 Vehicle parking and Storage of keys

1 All vehicle keys shall be kept in a lockable drawer whenever the vehicle is not in use. The COO is responsible for keeping all vehicle keys.

2 The Administration officer shall keep spare keys for all vehicles in a safe box.

3 All vehicles shall be securely parked at FSD Uganda office premises when not on official use.

4 All vehicles shall be returned to FSD Uganda office premises by 5:00pm every day and the keys handed over to the Administration Officer.

5 All staff shall have the responsibility of informing the Office manager in the event that they need the vehicle beyond 5:00pm so that arrangements can be made for the security of the vehicle and the keys.

6 Any exceptional use of the motor vehicle shall be approved by the COO.

14.3.3 Vehicle maintenance and repairs

1 The Administration officer shall ensure that the vehicles are serviced at designated service centres as and when the service falls due.

i. Vehicle maintenance and repairs shall be done with designated service providers.

ii. The driver shall have the responsibility for supervising the repairs and maintenance of the motor vehicle to ensure that the vehicle is always roadworthy.

iii. The driver shall be personally responsible for any damage that may occur to the vehicle under their custody.

iv. When a need for repair and/or a routine service has been identified, a service/repair order shall be completed by the Administration officer, reviewed by the FM and submitted to the COO for approval.

v. The COO shall verify the invoice from the service provider against the service/repair orders. Any inconsistencies in the invoices shall be brought to the attention of the respective dealer/service provider and resolved before payment is made.

14.4 Fixed Assets Management

Policy statement

FSD Uganda Fixed assets shall be accounted for in accordance to IAS 16. Assets shall be measured at historical cost/valuation less accumulated depreciation and impairment losses. Fixed assets additions shall be depreciated in the year of purchase irrespective of the date of purchase.

General guidelines

1 The FM shall be responsible for establishing and maintaining a register of all fixed assets procured and owned by FSD Uganda.

2 All employees using FSD Uganda assets have a responsibility to take care of the assets and ensure that the assets are protected against theft, excessive wear and tear, or other abuse.

3 The FM shall maintain a fixed assets register and this shall be updated with all the relevant details of the fixed assets additions and disposals. A fixed asset register shall contain the following fields:

   i. asset number;
   ii. asset description;
   iii. serial number;
   iv. date of purchase or acquisition and reference number;
   v. purchase or acquisition value;
   vi. condition of asset;
   vii. location of assets;
   viii. manufacturers' model and serial number, if any;
   ix. financing or funding sources of the asset.

4 A physical verification of all assets shall be performed annually by the FM. The results shall be used to update the Fixed Assets Register and the General Ledger. Any discrepancy noted shall be investigated and documented.

5 All FSD Uganda assets shall be secure and uniquely engraved or tagged.

6 All the assets of FSD Uganda shall be insured with reputable insurance companies.

7 The original documents of titles for FSD Uganda assets shall be kept securely in a safe.

8 The FM is responsible for the repairs of all office furniture and equipment whenever necessary. For contract suppliers, all repairs and maintenance shall follow the maintenance and service arrangements contained in the contract with the supplier.

The disposal of assets shall be done in accordance with the disposal procedures under the Procurement manual of FSD Uganda.

14.4.1 Definition of Fixed Assets and Equipment not capitalized

i. Any asset with a cost exceeding UGX 3,500,000 shall be capitalized and treated as a depreciable fixed asset.

ii. Any asset with a cost exceeding UGX 1,000,000 but less than UGX 3,500,000 shall be expensed, treated as non-expendable property but kept in the list of the company's fixed assets.

iii. Any asset with a cost less than 1,000,000 shall be expensed and not kept on the company's list of fixed assets.

14.4.2 Acquisition of fixed assets

i. Acquisitions of fixed assets shall be in accordance with the approved budget.

ii. An item shall only be acquired when funds are available.

iii. The acquisition of assets shall be done in accordance with the procurement procedures of FSD Uganda.

15 Appendices

Appendix 1 – Chart of Accounts

Appendix 2 – Delegation of Authority Matrix

Appendix 3 – Reconciliation templates

Appendix 4 – Cash count certificate

Appendix 5 – Budget template

Appendix 6 – Funding Grid

Appendix 7 – Fund acknowledgement form

Appendix 8 – Payment voucher

Appendix 9 – Petty cash voucher

Appendix 10 – Disbursement request form

Appendix 11 – Advance request form

Appendix 12 – Monthly performance analysis form

Appendix 13 – Finance organisation structure

Appendix 14 – Members and Board