



# MANEPO

## ACCOUNTING AND FINANCIAL POLICIES AND PROCEDURES





## **101 Financial Operations**

### **101.1 Overview**

The MANEPO management is responsible for preparing financial reports for appropriate institutional officials, Board members, and outside agencies. Written operating reports are provided to the Board of Trustees. The annual financial statements are certified by an independent Certified Public Accountant firm.

Monthly Management reports are also produced for the purpose of reviewing the accuracy and propriety of revenue and expense transactions made by MANEPO. Additionally, they present the original annual budget and revised budgets for these accounts.

### **101.2 Responsibilities of Financial Operations**

The primary responsibilities of Financial Operations consist of:

- General Ledger or Cashbook
- Budgeting
- Cash and Investment Management
- Asset Management
- Grants and Contracts Administration
- Cash Receipts
- Cash Disbursements
- Accounts Payable
- Payroll
- Financial Statement Processing
- External Reporting of Financial Information
- Bank Reconciliations
- Reconciliation of Sub-Ledgers
- Compliance with applicable International Reporting Requirements
- Leases
- Insurance

### **101.3 Organization Chart**

Financial Operation's organization chart shall follow the format as per the annex

## **102 General Ledger and Chart of Accounts**

### **102.1 Introduction**

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements.

### **102.2 Policy**

MANEPO's policy is to establish a chart of accounts which accumulates all financial transactions. The chart of accounts includes account codes for general and subsidiary ledger activities

### **102.3 Chart of Accounts**

The chart of accounts is the framework for the general ledger system which forms the basis for MANEPO's accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles.

MANEPO's chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Net Assets
4. Revenues/income
5. Expenses
6. Gains and Losses

### **102.4 Control of Chart of Accounts**

MANEPO's chart of accounts is monitored and controlled by the BOARD OF TRUSTEES. Responsibilities include the handling of all account maintenance, such as additions and deletions.

### **102.5 Account Code Structure for General Ledger**

A complete list of account codes is available and the chart show how codes are grouped and totaled for various reporting purposes.

### **102.6 Fiscal Year of Organization**

MANEPO's fiscal year 1<sup>st</sup> January and ends on 31 December. Any changes to the fiscal year of the organization must be ratified by majority votes of Board Members.

### **102.7 Accounting Estimates**

MANEPO utilizes numerous estimates in the preparation of its interim and annual financial statements.

It is MANEPO's policy that all such estimates shall be re-assessed, reviewed, and approved by the Board on an annual basis. Documentation shall be maintained supporting all key conclusions, bases, and other elements associated with each accounting estimate.

## **103 Revenue**

### **103.1 Revenue Recognition Policies**

MANEPO receives revenue from several donors. Revenue for each of these types is recognized in the financial statements in the following manner:

#### **1. Grants**

Grants includes all amounts received or made available by grants, contracts, and cooperative agreements from donors/agencies that are not considered to be contributions.

#### **2. Net Unrealized Gain (Loss) On Securities**

Net unrealized gain or loss represents the difference between the cost basis of the securities and the market value on the statement date, either quarterly or at fiscal year end.

#### **3. Net Realized Gain (Loss) On Securities**

Realized gain and losses are recognized when an exchange takes place. The specific identification method is used in computing the realized gain or loss on sale of securities.

#### **4. Other**

All other income not categorized above is reported as other income.

### **104.1 Accounting for Contributions**

MANEPO recognizes contribution income in the period in which MANEPO receives restricted or unrestricted assets in nonreciprocal transfers, or unconditional promises of future nonreciprocal asset transfers, from donors.

Unconditional promises to give shall be recorded as assets and increases in temporarily restricted net assets (contribution income) of MANEPO in the period that MANEPO receives evidence that a promise to support the Institute has been made. Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for uncollectible promises, as estimated by management.

Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value. Accretion of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises to give is the risk-free rate of return, compiled based on an average of rates applicable to the current year.

When the final time or use restriction associated with a contributed asset has been met, a reclassification between temporarily restricted and unrestricted net assets is recorded.

When support in the form of volunteer labor is received, MANEPO shall record contribution income and assets or expenses, if one of the following two criteria is met:

1. The contributed service creates or enhances a non-financial asset (such as a building or equipment), or
2. The contributed service possesses all three of the following characteristics:
  - a. It is the type of service that would typically need to be purchased by MANEPO, if it had not been contributed,
  - b. It requires specialized skills (i.e. formal training in a trade or profession), and
  - c. It is provided by an individual possessing those specialized skills.

Contributed services that meet either one of the two preceding criteria shall be recorded at the fair market value of the service rendered.

Contributions of non-cash assets (artifacts, food, clothing, etc.) shall be recorded at fair market value as of the date of the gift. The value assigned to such non-cash assets shall be determined by MANEPO's Director. Values provided by donors shall be considered in establishing these valuations, however, the final value used for accounting purposes shall be the value determined by MANEPO. Further, it is the policy of MANEPO not to certify any valuation of non-cash assets provided by donors.

#### **104.2 Receipts and Disclosures**

MANEPO and its donors are subject to certain disclosure and reporting requirements imposed under the Internal Revenue Code and the underlying Regulations. To comply with those rules, MANEPO shall adhere to the following guidelines with respect to contributions received by the MANEPO.

For any separate contribution received by MANEPO, it shall provide a confirmation to the donor. The confirmation shall include:

1. The amount of cash received and/or a description of any non-cash property received;

#### **104.3 Disclosures of Promises to Give**

As stated earlier, MANEPO shall record an asset and an increase in net assets for unconditional promises to give. In addition, in connection with its annual financial statements, MANEPO shall prepare a schedule of unconditional promises to give that discloses the annual amounts to be collected in each of the next five years, and a total amount due thereafter, less the amount representing interest as a result of discounting long-term promises to give to net present value.

In connection with conditional promises to give, which shall not be recorded on the financial statements, MANEPO shall nonetheless prepare a similar schedule of future payments for disclosure in the Institute's annual financial statements.

#### **104.4 Gift Acceptance Policy**

MANEPO shall accept charitable contributions of all types of assets from any type of donor, with the following exceptions:

1. Contributions of non-liquid assets or assets possessing legal or other characteristics rendering the asset difficult to sell or convert to liquid assets, as determined by the Directors;
2. Contributions with donor-imposed restrictions that provide excessive control to the donor over future uses of the donated asset(s), as determined by the Directors;
3. Contributions with donor-imposed restrictions that violate or involve uses that go beyond the Institute's current mission statement and tax-exempt purposes, as determined by the Directors; and
4. Contributions from donors involved in businesses or activities that are deemed inconsistent with MANEPO's mission.

## **105 Accounts Payable Management**

### **105.1 Overview**

MANEPO strives to maintain efficient financial practices and good cost control. The accounts payable function assists in accomplishing this goal through processing invoices and making payment for authorized transactions.

The recording of assets or expenses and the related liability is performed by an employee independent of ordering and receiving.

### **105.2 Policy**

MANEPO policy related to processing and payment of invoices requires that:

- The vendor master file be maintained and updated on a regular basis.
- Only original invoices will be accepted for payment.
- Disbursements are properly authorized.
- Invoices are processed in a timely manner.
- Duplicate payments are avoided.
- Vendor credit terms and operating cash are managed for maximum benefits.

### **105.3 Vendor Master File**

MANEPO is responsible for obtaining appropriate documentation to establish new vendors. When payment is submitted for a new vendor or person, the department will forward the appropriate documentation to Accounts Payable for processing. Accounts Payable personnel will check to see that the following information is provided:

- Completed MRA form for domestic payments.
- Completed MRA form for foreign payments.
- Vendor's legal name and any other name(s)
- Street Address
- Telephone Number
- Fax number, if applicable
- Contact name.

On an annual basis, vendors that have not been utilized over the preceding [24-month] period will be frozen in the system. In addition, on an ongoing basis, the Manager of Accounts Payable should perform the following procedures:

- Cross-check vendors for matching street or P.O. Box addresses.
- Review payment histories for signs of repeat invoice numbers or other signs of duplicate payments.

#### **105.4 Verification of New Vendors**

MANEPO will have to perform additional procedures on a random basis to validate the legitimacy of new vendors that will be paid one-time or when the payment exceeds **MK500,000.00**. For such vendors, the Accounts Payable person will perform a limited public records search and shall contact the vendor to validate the vendor's existence.

#### **105.5 Independent Contractor Agreements**

Goods and services performed by independent contractors under non-grant agreements should be processed using the Independent Contractor Agreement form.

Non-grant agreements must be submitted to MANEPO's Board for review prior to execution. For independent contractor services under grant and contract agreements, a consultant agreement must be completed and signed by appropriate parties.

Independent Contractor Agreements processed by accounts payable are forwarded to the payroll office to determine whether the payee is an Institute employee. Agreements for personnel that are on the Institute's payroll are returned to the originating department. They must submit the payment request to the payroll office for processing through MANEPO's payroll system. Payment requests for individuals not on the payroll are handled by accounts payable.

#### **105.6 Processing of Invoices**

The accounts payable person should perform the following steps to process invoices for payment:

- Cheque the mathematical accuracy of each vendor invoice
- Compare the nature, quantity and prices of all items ordered per the vendor invoice to the purchase order, if applicable.
- Verify the general ledger distribution, using the MANEPO's current chart of accounts.
- Verify the approval of the center/department head (or their designee) associated with the goods or services purchased. Approvals shall be documented with initials or signatures of the approving individual.

#### **105.7 Vendor Discounts**

To the extent practical, MANEPO shall take advantage of all prompt payment discounts offered by vendors. When availability of such discounts is noted, and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

#### **105.8 Unclaimed Property**

IIAM complies with the State laws regarding unclaimed property. Accordingly, if uncashed cheques are subject to state reporting and transfer requirement, the Institute will file timely all appropriate forms and remit unclaimed property to the appropriate jurisdiction.

### **105.13 Reconciliation of A/P Subsidiary Ledger to General Ledger**

On a monthly basis, amounts due to vendors per the accounts payable subsidiary ledger are reconciled to the total per the accounts payable general ledger account (control account). All differences are investigated and adjustments are made as necessary. The reconciliation and the results of the investigation of differences are reviewed and approved by the Institute controller.

## **106 Travel Policy**

### **106.1 Overview**

MANEPO recognizes that, for many employees and directors, travel expenses are incurred in order to further the mission of MANEPO. By setting forth the requirements necessary for obtaining approvals and reimbursement of these expenses, MANEPO endeavors to assist its travelers.

### **106.2 Policy**

MANEPO policy reimburses employees and directors for those ordinary and necessary expenses incurred while traveling on official MANEPO business. Employees and directors will utilize the most economical means to travel consistent with the nature of the trip.

### **106.3 Travel Expense Reports**

MANEPO uses an “Accountable Plan” for reimbursement of actual travel expenses. Reimbursements for travel expenses, business meals, or other approved costs will be made only upon the receipt of a properly approved and completed travel expense report.

The maximum actual daily limit for meals is MK50000 for all staff. All expenses incurred within this limit require detailed itemized receipts. The full text of MANEPO’s Travel Policy can be accessed.

## **107 Cash Disbursements (Cheque-Writing) Policies**

### **107.1 Policy**

MANEPO’s policy is that Cheques shall be prepared by persons independent of those who initiate or approve expenditures, as well as those who are authorized cheque signers. cheques shall be signed by an individual other than the one who approved the transaction for payment.

### **107.2 Cheque Preparation**

All expense reimbursement cheques shall be produced in accordance with the following guidelines:

1. Expenditures must be supported in conformity with the purchasing, accounts payable, and travel and business entertainment policies described in this manual.
2. Timing of disbursements should generally be made to take advantage of all early-payment discounts offered by vendors.
3. Generally, all vendors should be paid by the corresponding due date shown on the invoice after delivery of the requested goods or services.
4. Total cash requirements associated with each cheque run is monitored in conjunction with available cash balance in bank prior to the release of any cheques.
5. All supporting documentation is attached to the corresponding cheque prior to forwarding the entire package to an authorized cheque signer.
6. Cheques shall be utilized in numerical order (unused cheques are stored in a locked safe in the accounts payable department).
7. Cheques will never be made payable to “bearer” or “cash”.
8. Cheques will never be signed prior to being prepared.
9. Upon the presentation of a cheque, vendor invoices and other supporting documentation will immediately be canceled in order to prevent subsequent reuse.

### **107.3 Cheque Signing**

All Cheques require two signatures. No cheques will be signed prior to the cheque being completed in its entirety (no signing of blank cheques).

Cheque signers should examine all original supporting documentation to ensure that each item has been properly reviewed prior to signing a cheque. Cheques should not be signed, if supporting documentation is missing or there are any questions about the disbursement.

### **107.4 Mailing of Cheques**

Cheques are returned to the accounts payable individual who prepared them. This person then forwards these cheques immediately to the post office. Cheques are not mailed by or returned to individuals who authorize expenditures.

### **107.5 Voided Cheques and Stop Payments**

Cheques may be voided due to processing errors by making proper notations in the cheque register and defacing the cheque by clearly marking it as “VOID”. All voided cheques shall be retained to aid in preparation of bank reconciliation.

Stop payment orders are made for cheques lost in the mail or other valid reasons. Stop payments are communicated electronically to the bank by the Assistant Accounts Payable Manager and/or an accounts payable person with this authority. Either employee records the stop payment in the banner system to void the transaction.

## **108 Petty Cash**

### **108.1 Policy**

It is the policy of MANEPO to use petty cash for small purchases. MANEPO provides imprest funds (for minor office expenditures, not for travel or employee advances). Accounts Payable replenishes these funds up to its authorized balance.

All disbursements from the petty cash fund must be accompanied by a completed and approved petty cash voucher. Receipts are required for all disbursements from petty cash. It is the responsibility of the petty cash custodian to ensure that the petty cash fund is locked at all times.

### **108.2 Replenishing a Petty Cash Fund**

The custodians shall replenish petty cash funds when approximately eighty per cent of the funds have been expended. However, at fiscal year-end, custodians should replenish funds within two weeks of the close of each fiscal year, to ensure expenditures are recorded in the proper fiscal year.

Reconciliation of petty cash funds must be made whenever the current custodian is no longer responsible for the funds for whatever reason. If the department’s need for the fund still exists, a new custodian must be designated.

Forms and more detailed procedures to open, replenish, and close petty cash funds are provided.

## **110 Payroll and Related Policies**

### **110.1 Classification of Workers as Independent Contractors or Employees**

It is the policy of MANEPO to consider all relevant facts and circumstances regarding the relationship between MANEPO and the individual in making determinations about the classification of workers as independent contractors or employees. This determination is based on the degree of control and independence associated with the relationship between MANEPO and the individual. Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral control
2. Financial control

3. The type of relationship of the parties

Facts associated with each of these categories that will be considered by MANEPO in making employee/contractor determinations shall include:

1. Behavioral control:

- a. Instructions given by MANEPO to the staff that indicate control over the worker (suggesting an employee relationship), such as:
  - (1) When and where to work
  - (2) What tools or equipment to use
  - (3) What workers to hire or assist with the work
  - (4) Where to purchase supplies and services
  - (5) What work must be performed by a specified individual
  - (6) What order or sequence to follow
- b. Training provided by MANEPO to the staff (i.e. employees typically are trained by their employer, whereas contractors typically provide their own training).

2. Financial control:

- a. The extent to which the staff has unreimbursed business expenses (i.e. employees are more likely to be fully reimbursed for their expenses than is a contractor).
- b. The extent of the worker's investment in the facilities/assets used in performing services for MANEPO (greater investment associated with contractors).
- c. How MANEPO pays the staff
- d. The extent to which the worker can realize a profit or loss.

3. Type of Relationship:

- a. Written contracts describing the relationship that MANEPO and the individual intend to create.
- b. Whether MANEPO provides the staff with employee-type benefits, such as insurance, paid leave, etc.
- c. The permanency of the relationship.
- d. The extent to which services performed by the staff are a key aspect of the regular business of MANEPO.

If an individual qualifies for independent contractor status, the individual will be sent an agreement if total compensation paid to that individual for any calendar year, is on the cash basis. The amount reported on a contract is equal to the compensation paid to that person during a calendar year (on the cash basis). Excluded from "compensation" are reimbursements of business expenses that have been accounted for by the contractor by supplying receipts and business explanations.

If an individual qualifies as an employee, a personnel file will be created for that individual and all documentation required by MANEPO personnel policies shall be obtained. The policies described in the remainder of this section shall apply to all workers classified as employees.

### **110.2 Payroll Administration**

MANEPO operates on a monthly payroll. For all MANEPO employees, an official personnel file is established and maintained, that includes payroll data, approved salaries, and payroll account distribution.

### **110.3 Changes in Payroll Data**

It is the policy of MANEPO that all of the following changes in payroll data are to be authorized in writing:

1. Offer letters
2. Conditions of Service
3. MANEPO Policies, ie. Fraud Policy
4. Terminations
5. Changes in salaries and pay rates
6. Voluntary payroll deductions
7. Changes in income tax withholding status
8. statutory -ordered payroll deductions

New hires, terminations, and changes in salaries or pay rates shall be authorized in writing by the appropriate authority.

Voluntary payroll deductions and changes in income tax withholding status shall be authorized in writing by the individual employee.

Documentation of all changes in payroll data will be maintained in each employee's personnel file. Additionally, all changes to payroll data processed by Human Resources are audited by payroll staff.

### **110.4 Payroll Taxes**

The Payroll Department is responsible for ensuring all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid, including state and Malawi Revenue Authority taxes. State taxes are remitted to respective states bi-weekly, monthly, or quarterly.

## **110.6 Review of Payroll**

Upon production of all payroll reports and cheques, the Head of Finance reviews payroll prior to its distribution to staff. The Head of Finance should sign the payroll register, indicating approval of the payroll.

## **110.7 Distribution of Payroll**

Payments to staff for salary earned are made either directly to their bank(s) account (direct deposit) or by cheque mailed directly to an address provided by the employee. No cheques may be picked up in the payroll department or forwarded to the employees' home department.

## **110.8 Internal Audit of Payroll Data**

It is the policy of MANEPO to conduct an annual internal audit (if scheduling permits) of certain payroll data. This internal audit shall be performed by the MANEPO's internal audit department. The purpose of this internal audit is to determine the integrity of the MANEPO's payroll records, including regular salary, overloads, deductions, and net payments to employees.

## **111 Cash and Cash Management**

### **111.1 Policy**

MANEPO seeks to maximize its return on operating funds. To meet this objective, the master depository account maintains only those funds sufficient to cover immediate needs. Excess surplus funds are transferred for short-term investment.

### **111.2 Authorized Signers**

Personnel in the following positions at MANEPO are authorized to sign cheques and wires drawn on the general operating and payroll accounts. Those positions are:

Executive Director/CEO  
Programme Manager  
Trustees

### **111.3 Bank Reconciliations**

The employee assigned to reconciling bank accounts should not have cheque signing authority, cheque preparation responsibilities, or cash recording responsibilities.

All bank reconciliations are reviewed and approved by the Executive Director on a monthly basis. Reconciling items that require research are followed up by the individual performing the reconciliation with the appropriate department.

### **111.4 Cash Flow**

The Executive Director monitors cash flow needs on a daily basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis.

## **112 Inventory**

### **112.1 Policy**

It is the policy of MANEPO to accurately account for all inventories on a quarterly and year end basis

### **112.2 Accounting for Inventory**

It is the policy of MANEPO to account for purchased inventory items at cost, using the first-in, and first-out method of valuation. Unit cost shall be computed by adding freight, insurance and other shipping costs to the actual cost of purchased inventory, dividing this total amount by the number of units purchased.

### **112.3 Physical Counts**

It is the policy of MANEPO to perform a physical count of inventory on a quarterly and annual basis. Any inventory items that appear damaged, obsolete or otherwise unable to be sold will be excluded from the counts. A detailed record of the physical count will be kept by the individuals involved in taking the inventory.

## **113 Prepaid Expenses**

### **113.1 Policy**

It is the policy of MANEPO to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses, such as insurance and taxes, and to amortize these items over the corresponding time period. For purposes of this policy, payments of less than MK50,000 will be expensed as paid and not treated as prepaid expenses, regardless of the existence of a future benefit.

Prepaid expenses with future benefits that expire within one year from the date of the financial statements will be classified as current assets.

### **113.2 Procedures**

As part of the account coding process performed during the processing of accounts payable, all incoming vendor invoices will be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment will be code to a prepaid expense (asset) account code.

Financial Operations will maintain a schedule of all prepaid expenses. The schedule will indicate the amount and date paid, the period covered by the prepayment, the purpose of the

prepayment, and the monthly amortization. This schedule will be reconciled to the general ledger balance as part of the monthly closeout process.

### **115.1 Fixed Assets**

The full text of MANEPO's policies and procedures regarding Fixed Assets are provided in detail below.

## **117 Accrued Liabilities**

### **117.1 Policy**

The accounting department shall establish a list of commonly incurred expenses that may need to be accrued at the end of an accounting period. Expenses that shall be accrued by MANEPO at the end of an accounting period include:

Salaries and wages	Interest on notes payable
Payroll taxes	Property taxes
Vacation pay	Self-Originating loan program

### **117.2 Accrued Leave**

#### *Vacation Pay*

Personnel policies of MANEPO permit employees to carry forward up to one week of unused leave per year. Any unused leave is payable to an employee upon termination of employment. Accordingly, MANEPO's records a liability for accrued leave to which employees are entitled. The total liability at the end of the fiscal year shall equal the total earned but unused hours of leave, up to a maximum of 37.5 hours, multiplied by each employee's current hourly pay rate.

#### *Sick Leave*

Sick leave that is not used at the end of each fiscal year shall not be accrued as a liability of MANEPO.

## **119 Net Assets**

### **119.1 Policy**

It is the policy of MANEPO to classify net assets based upon the existence or absence of donor-imposed restrictions as follows:

**Unrestricted Net Assets** – Net assets that are not subject to donor imposed stipulations.

**Temporarily Restricted Net Assets** – Net assets subject to donor imposed stipulations that may or will be satisfied through the actions of MANEPO and/or the passage of time.

**Permanently Restricted Net Assets** – Net assets subject to donor imposed stipulations that the Institute permanently maintain certain contributed assets. Generally, donors of such assets permit the IMANEPO to use all or part of the income earned from permanently restricted net assets for general operations or for specific purposes. Permanent restrictions do not pass with the expiration of time, nor can they be removed through the organization's actions.

### **119.2 Reclassification from Restricted to Unrestricted Net Assets**

MANEPO shall report in its statement of activities a reclassification from restricted to unrestricted net assets if any of the following events occur:

1. Fulfillment of the purpose for which the net assets were restricted (e.g. spending restricted funds for the stipulated purpose)
2. Expiration of time restrictions imposed by donors
3. Death of an annuity beneficiary
4. Withdrawal by the donor (or by a court) of a time or purpose restriction

If a donor stipulates multiple restrictions, such as a purpose and a time restriction, the reclassifications from temporarily restricted to unrestricted net assets shall be reported only upon the satisfaction of the final remaining restriction.

### **119.3 Reclassification from Unrestricted to Restricted Net Assets**

MANEPO receives a restricted contribution from a donor who further stipulates that the MANEPO set aside a portion of its unrestricted net assets for that same purpose, the organization shall report in its statement of activities a reclassification of net assets from unrestricted to temporarily or permanently restricted, based on the specific nature of the restriction.

### **119.4 Disclosures**

It is MANEPO's policy to provide within its financial statements footnote disclosures that describe the different types of temporary and permanent restrictions associated with the Institute's net assets as of the end of each fiscal year.

## **120 Financial Statements**

### **120.1 Policy**

MANEPO's policy is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner.

The standard set of financial statements described below will be produced on a quarterly and annually basis. These financial statements shall be prepared on the accrual method of accounting.

### **120.2 Standard Financial Statements of MANEPO**

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the organization. Financial statements may reflect year-to-year historical comparisons or current budget to actual comparisons.

The preparation of financial statements in conformity with accounting principles generally accepted in Malawi requires MANEPO to make estimates and assumptions about the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The basic financial statements of MANEPO that are maintained on an organization-wide basis are:

1. **Statement of Financial Position** – reflects assets, liabilities and net assets of the organization and classifies assets and liabilities as current or non-current/long-term.

Assets are probable future economic benefits obtained or controlled by the organization as a result of past transactions or events. Assets of MANEPO are classified as current assets, fixed assets, contra-assets, and other assets.

Current assets are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date.

Fixed assets (property and equipment) are tangible assets with a useful life of more than one year that are acquired for use in the operation of the organization and are not held for resale.

Contra-assets are accounts that reduce asset accounts, such as accumulated depreciation and reserves for uncollectible accounts receivable.

Other assets include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property, and long-term investments.

Liabilities are probable future sacrifices of economic benefits arising from present obligations of the organization to transfer assets or provide services to other entities in the future as a result of past transactions or events. Liabilities of MANEPO are classified as current or long-term.

Current liabilities are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples are accounts payable, accrued liabilities, short-term notes payable, and deferred revenue.

Long-term liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan.

Net assets are the difference between total assets and total liabilities.

2. **Statement of Comprehensive Income** – presents revenues, gains, and other support, expenses, and changes in net assets of the Institute, by category of net assets (unrestricted, temporarily restricted and permanently restricted), including reclassifications between categories of net assets.

Revenues are inflows of the Institute or other enhancements of assets, or settlements of liabilities, from rendering services, delivering or producing goods, or other activities that constitute the Institute's ongoing major or central operations. Examples include membership fees, contributions, investment income, government grants, and auxiliary operations.

Expenses are outflows or other using up of assets or incurrence of liabilities from rendering services, delivering or producing goods, or carrying out other activities that constitutes MANEPO's ongoing major or central operations. Expenses are classified by functions, such as, program expense, management and general expense, and fund-raising expense.

3. **Statement of Cash Flows** – reports the cash inflows and outflows of the organization in three categories: operating activities, investing activities, and financing activities.

### 120.3 Review and Distribution of Financial Statements

Quarterly and annual financial statements and supporting schedules shall be reviewed and approved by the Executive Director prior to being issued. Once approved, a complete set of quarterly and annual financial statements shall be distributed to the Board of Directors and the full Board of Directors for approval.

## **122 Budgeting**

### **122.1 Overview**

Budgeting is an integral part of managing MANEPO and is concerned with meeting organizational goals and objectives. The budget is designed and prepared to direct the efficient and prudent use of the Institute's financial and human resources. The budget is management's commitment to a plan for present and future organizational activities to ensure a going concern. It provides an opportunity to examine the composition and viability of the Institute's programs and activities simultaneously in light of available resources.

### **122.2 Preparation and Adoption**

It is the policy of MANEPO to prepare a budget annually. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years.

After appropriate revisions and a compilation of all department budgets, a draft of the MANEPO-wide budget, as well as individual departmental budgets, is submitted to the Finance Committee of the Board of Directors, and finally to the entire Board of Directors for adoption.

It is the policy of MANEPO to adopt a final budget about 30 days before the beginning of the MANEPO's fiscal year. The purpose of adopting a final budget at this time is to allow adequate time for the accounting department to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

### **122.3 Monitoring Performance**

It is the policy of MANEPO to monitor its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process.

On a monthly basis, financial reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced by the budget department and distributed to each department head with budgetary responsibilities.

## **123 Annual Audit**

### **123.1 Policy**

It is the policy of MANEPO to arrange for an annual audit of the MANEPO's financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by MANEPO will be required to communicate directly with the MANEPO's audit committee upon the completion of their audit. In addition, members of the audit committee are authorized to initiate communication directly with the independent accounting firm.

### **123.2 How Often to Review the Selection of the Auditor**

MANEPO will review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm.
2. When a fresh perspective and new ideas are desired.
3. Every 3 years to ensure competitive pricing and a high quality of service. This is not a requirement to change auditors every five years, simply to re-evaluate the selection.

### **123.3 Selecting an Auditor**

The selection of an accounting firm to conduct the annual audit is a task that should be taken very seriously. The following factors will be considered by MANEPO in selecting an accounting firm:

1. The firm's reputation in the nonprofit community.
2. The depth of the firm understands of and experience with not-for-profit organization and Grants reporting requirements.
3. The firm's demonstrated ability to provide the services requested in a timely manner.
4. The ability of firm personal to communicate with MANEPO's personnel in a professional and congenial matter.

If MANEPO decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information will be included:

1. Period of services required.
2. Type of contract to be awarded (fixed fee, cost basis, etc.)
3. Complete description of the services requested (audit, management letter, tax returns, etc.)
4. Identification of meetings requiring their attendance, such as staff or Board of Director meetings.
5. Organization chart of MANEPO
6. Chart of account information.
7. Financial information about the Institute.
8. Copy of prior year reports (financial statements, management letters, etc.)
9. Other information considered appropriate.

10. Description of proposal and format requirements.
11. Due date of proposals.
12. Overview of selection process.
13. Identification of criteria for selection.

Minimum Proposal Requirements from prospective CPA firms will be:

1. Firm background.
2. Biographical information (resumes) of key firm members who will serve MANEPO.
3. Client references.
4. Information about the firm's capabilities.
5. Firm's approach to performing an audit.
6. Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings.
7. Other resources available with the firm.
8. Expected timing and completion of the audit.
9. Expected delivery of reports.
10. Cost estimate including estimated number of hours per staff member.
11. Rate per hour for each auditor.
12. Other information as appropriate.

#### **123.4 Preparation for the Annual Audit**

MANEPO will be actively involved in planning and assisting the MANEPO's independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the accounting department will provide assistance to the independent auditors in the following areas:

**Planning** – The MANEPO's Head of Finance is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments will be based on the list of requested schedules and information provided by the independent accounting firm.

**Involvement** – MANEPO staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.

**Interim Procedures** – To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the Institute's year-end. By performing significant portions of the audit work as of an interim date, the work required subsequent to year-end is reduced. Institute staff will assist as much as possible in order to provide requested schedules and documents to auditors during any interim fieldwork that is performed.

Throughout the audit process, it will be the policy of MANEPO to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

#### **123.5 Concluding the Audit**

Upon receipt of a draft of the audited financial statements of MANEPO from its independent auditor, the Head of Finance and Executive Director will perform a detailed review of the draft, consisting of the following procedures:

1. Carefully read the entire report for typographical errors.
2. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of MANEPO.
3. Review each footnote for accuracy and completeness.

It will also be the responsibility of Head of Finance to review and respond in writing to all management letter or other internal control and compliance report findings and recommendations made by the independent auditor.

## **124 Insurance**

### **124.1 Policy**

MANEPO's policy is to maintain an active risk management program that includes a comprehensive insurance package. This will ensure the viability and continued operations of MANEPO. The Institute seeks to maintain adequate insurance against general liability, as well as coverage for buildings, contents, fine arts, equipment, machinery and other items of value.

## **125 Record Retention**

### **125.1 Policy**

MANEPO retains records as required by law and destroys them when appropriate. The destruction of records must be approved by the appropriate Authority. The formal records retention policy of MANEPO is as follows:

Accident reports/claims (settled cases)	7 Years
Accounts payable ledgers and schedules	7 Years
Accounts payable unclaimed property	5 Years
Accounts receivable ledgers and schedules	7 Years
Annual audit reports	
Bank reconciliations	3 Years
Bank statements	3 Years
Chart of accounts	permanently
Cancelled cheques	7 Years
Contracts, mortgages, notes and leases:	
Expired	7 Years
Still in effect	permanently
Correspondence:	
General	2 Years
Legal and important matters only	permanently
Routine with customers and/or vendors	2 Years

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Deeds, mortgages and bills of sales	7 Years Following Sale
Depreciation schedules	permanently
Duplicate deposit slips	3 Years
Expense analyses/expense distribution schedule	7 Years
Financial statements:	
Year end	permanently
Quarterly	7 Years
Garnishments	7 Years
General ledgers/year end trial balance	7 Years
Insurance policies (expired)	3 Years
Insurance records (policies, claims, etc.)	Permanently
Internal audit reports	3 Years +
Internal reports	3 Years
Inventories of products, materials and supplies	7 Years
Invoices (to customers, from vendors)	7 Years
Journals	7 Years
Minute books of directors, bylaws and charters	permanently
Notes receivable ledgers and schedules	7 Years
Payroll records and summaries	7 Years
Petty cash vouchers	3 Years
Physical inventory tags	3 Years
Property records (incl. depreciation schedules)	permanently
Purchase orders:	
Purchasing department copy	7 Years
Other copies	1 Year
Subsidiary ledgers	7 Years
Tax returns and worksheets, examination reports and other documents relating to determination of income tax liability	Permanently
Time sheets/cards	7 Years
Trademark registrations and copyrights	permanently
Training manuals	permanently
Voucher registers and schedules	7 Years
Withholding tax statements	7 Years

## 126 Functional Expense Allocation

### 126.1 Direct Charging of Costs

Certain internal costs will be directly charged to the appropriate MANEPO function based upon underlying documentation. The following costs shall be charged directly based on the documentation or factor listed next to each:

<u>Cost</u>	<u>Basis For Charge</u>
Salaries	Number of employees in a function
Occupancy (facilities) costs	Actual square footage used by each function
Long-Distance Telephone	Actual use, based on codes
Photocopying	Actual use, based on codes
Postage	Actual, per postage log
Supplies	Actual, per usage forms

With the exception of salaries, which are recorded with each payroll cycle, and occupancy costs, which are charged to an operation and maintenance account and then allocated during the year end institutional cost allocation, all other costs identified above will be initially charged to one account when incurred, then allocated and recorded to the appropriate functions by a monthly journal entries.

### 126.2 Allocation of Overhead Cost

On a monthly basis, an allocation of overhead to each program service and supporting activity area will be recorded by a journal entry. Overhead will be allocated based on [direct salaries charged to each function]. Costs included in overhead to be allocated include all costs associated with building occupancy, building and equipment maintenance, and any other cost that benefits all functions of the Institute.

General and administrative costs shall not be allocated to program service or other supporting functions of the Institute.

## **127 Administration of Grant and Contracts**

### **127.1 Overview**

Policies and procedures related to post award activities are incorporated in the Accounting & Financial Policies and Procedures Manual. Following is a list of those policies and procedures with a link to the documentation

MANEPO receives financial assistance from several agencies

**Grants:** A financial assistance award given to the organization to carry out its programmatic purpose.

**Contracts:** A mutually binding legal agreement where the organization agrees to provide supplies or services and the donor agrees to pay for them.

**Cooperative Agreements:** A legal agreement where the organization implements a program with the direct involvement of the donor. This type of agreement is a grant-type instrument.

### **127.2 Policy**

It is the policy of MANEPO to maintain a financial management system that provides accurate, current, and full disclosure of operating results. This will assist in ensuring compliance with laws, regulations, and provisions of awarding agencies and to ensure bills and required reports are filed timely.

### **127.3 Compliance with Laws, Regulations and Provisions of Awards**

MANEPO recognizes that as a recipient of funds, the Institute is responsible for compliance with all applicable Government and state laws, regulations, and provisions of contracts and grants.

### **127.4 Billing and Financial Reporting**

MANEPO strives to provide management, staff and funding sources with timely and accurate financial reports

The following policies shall apply to the preparation and submission of billings to agencies under awards made to MANEPO:

1. It is the policy of the MANEPO to request reimbursement after expenditures have been incurred, unless an award specifies another method.
2. All financial reports required under each award will be prepared and filed on a timely basis. To the extent the year-end audit results in adjustments to amounts previously reported to agencies, revised reports will be prepared and filed in accordance with the terms of each award.

## 128.0 Procurement

Refer to the MANEPO procurement policy.