

**Ministry of Foreign Affairs
Danida
Department for Quality Assurance**

Guidelines for Decentralised Project Accounting

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1 Introduction

The following guidelines are part of the Aid Management Guidelines for Danish bilateral development assistance. The guidelines describe the requirements concerning accounting in those projects/programmes where Danida itself (i.e. Ministry of Foreign/Representation) is the implementing agency. It provides guidance with regard to the accounting and the establishment of the accounts functions in the project, and gives guidance to Danida staff in the Ministry and at the Representations. The guidelines shall be used in conjunction with other guidelines in the Aid Management Guidelines, including Procurement Policy Guidelines and the General Guidelines for Accounting and Auditing of Grants. The mentioned guidelines can be downloaded from <http://www.amg.um.dk>.

1.1 Background and purpose of the guidelines

Management of Danish funds shall be based on sound financial management procedures of international accepted standards.

The main purposes of the guidelines are: a) to state the basic principles and rules for decentralised project accounting, b) to provide guidelines for organising the accounts section, the accounting systems and related functions in a project, c) to provide guidelines on preparation of a project accounts manual and a model for an accounting manual for the project, and d) to give guidance to Danida-staff regarding roles and responsibilities.

The primary users of the guidelines are the project management, the project's accounts staff, Danida-staff, the auditors of the project and, if applicable, the Steering Committee.

1.2 How to use these guidelines

These guidelines give a general description of decentralised accounting and the relationship between the decentralised unit's ("the project") accounts and Danida's accounts. The guidelines also contains guidelines with regard to setting up the accounting system within a project, including choice of technology, organisation of the accounts section, selection and training of staff, and appointment of external auditor.

All projects with decentralised accounting shall have an accounting manual describing the specific accounting procedures of the project. A model for an accounting manual for a project is included as Annex 2. The manual should be prepared from the start of the project, and it should be updated as and when required. Procedures and responsibilities for updating the manual shall be described in the accounting manual.

1.3 Objectives of the project accounting

The project accounting shall meet the following objectives:

Reporting

The accounting system shall provide the project management with the necessary financial information required to ensure efficient project implementation. The accounting system shall provide for accurate and timely financial reporting to Danida and to the national partner according to prevailing rules and agreements.

Control

The accounting system shall provide for efficient control and monitoring of the use of funds and other assets made available for the project.

1.4 Responsibility for the project implementation

It is the responsibility of the project management to ensure that:

- Detailed annual work plans and budgets are prepared;
- The Danish grant is appropriately accounted for;
- Appropriate internal guidelines and control procedures are prepared and followed so as to ensure that the grant is administered adequately and that the funds are used in accordance with the objectives set out in the grant document;
- Timely, reliable and relevant financial reporting is provided to Danida and, where applicable, the Steering Committee (or other relevant body overseeing the implementation);
- Annual accounts, outlining the use of available funds during the accounting period, are prepared and ready for audit no later than 3 months after the end of the financial year.

2 The Principles of Decentralised Project Accounting

2.1 Definition

In Danida terms decentralised project accounting means that a project, which is directly accountable to Danida, maintains its own accounts and reports its expenditures on a monthly basis to Danida (i.e. the Representation or Ministry). The report to Danida is made at budget line level using a standardised monthly report (enclosed as an annex). All accounts vouchers and other supporting documents remain with the project. An external auditor shall audit the project accounts and make unannounced check of cash holdings and other assets. The representation appoints the auditor. Where relevant, the appointment of the auditor shall be in consultation with the Steering Committee. of the project/programme.

The project's grant-budget will be divided into a number of budget lines. The budget in the Approval Paper to the Danida Board is an aggregate of the budget in the project document. The budget-lines in Danida's accounts system will normally reflect the budget as presented in the Approval Paper. The project's accounts must be organised such that it is possible to report on the use of funds as per budget lines in the grant. The responsibility for any budget line should rest with only one institution (government body, project, embassy or the ministry in Copenhagen). If more than one institution incurs expenditures on a budget line in the grant the number of budget lines can be expanded, e.g. one for each institution and the budget divided between the two.

2.2 Relations to Danida's Accounts

The accounts of the project can be looked upon as a subsidiary ledger of Danida's accounts system. It means that after the monthly updating, based on the Monthly Reporting Sheet report (MRS), the applicable Danida accounts (i.e. budget lines) should, at an aggregated level, show the same balances as the balances in the project accounts.

When Danida transfers funds to the project or if Danida makes purchases on behalf of the project, a project interim account in Danida's accounts system is debited. When the project receives funds or invoices/goods, paid by Danida, a Danida grant account in the project books is credited and the respective assets/expenditure accounts are debited.

If the contract office in the Ministry of Foreign Affairs is responsible for a contract the expenditures are booked directly in UM-Finans¹ on a budget-line reserved for this purpose and the expenditure thereby not included in the decentralised accounts. If the project management wish to include such expenditures in the project accounts they may be registered on accounts which are not directly included in the monthly reporting to Danida, but only in the reporting to the project management.

By the end of the month the project prepares its monthly finance report to Danida using the standard accounting report, MRS (enclosed in annex 2 app.6.). An MRS is an entry advice from the project to Danida. Through the MRS the project advises Danida to credit the interim account with an amount corresponding to the total funds/goods/services received by the project from Danida during the month, and debit the relevant asset/expenditure accounts (budget lines).

On a monthly basis Danida forwards accounts statements from UMF-Rep (UMF-Rep is the name used for the Embassy's accounts system) for to the project. The accounts statements include statement for the income/expenditure accounts as well as all balance accounts.

Danida's accounts should at any given time show, per budget line, the total expenditures and the cash, bank, and current account holdings of the project up to the latest MRS entered in Danida's system. The details of the expenditures will be found in the project accounts. The project shall reconcile the accounts for cash, bank and account current book (debtors) with the statements received from Danida. The project shall also reconcile the totals on the budget line accounts with the total of the corresponding expenditure accounts in the project accounts.

It is the responsibility of the project to reconcile the interim account statement from UM-Finans/UMF-Rep with the accounts of the project. The interim account, with which the project shall reconcile its own accounts, is the Danida accounts statement in local currency. The project shall, however, also ascertain that the open items in the interim account in Danish Kroner correspond with the open items in local currency. In principle the balance of the interim account shall be zero after Danida has booked the latest MRS. A balance in the interim account will represent money or goods in transit, i.e. money or goods transferred from Danida, but not yet reported as received by the project, on the monthly MRS. If a posting to the interim account is cleared at a different rate of exchange there will be a balance on the interim account in DKK on the statement. It is the responsibility of Danida to clear this balance in cooperation with the project. The project shall agree with the Danida-unit receiving its MRS about the responsibility and procedures for booking of variances due to fluctuation in exchange rates.

The MRS will for any period represent the final booking for this period. No entry of data (re-postings, etc.) shall be made in any accounting period for which reporting to Danida has already been made on a MRS. Errors and omissions shall be accounted for in the following

¹ Um-Finans is the commonly used name for the Ministry's accounts system
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accounting period. Materially errors and omissions in the annual accounts shall be commented on in the notes to the annual accounts. Any corrections resulting from such errors should be booked in the new financial year.

The procedures for checking and reconciliation of accounts, including the interim account, shall be described in the project's accounts manual as well as procedure for handling exchange rate differences.

2.3 Cash Basis of Accounting

Danida follows the cash basis principle for accounting, which means that expenditures are accounted for at the time of payment. Danida does not in its accounts system operate with fixed assets, stock of materials, accrued expenses or accounts payable. Danida's account system contains the following balance sheet accounts: cash, bank and account current book.

In cases where projects, for control and management purposes, find it appropriate to have e.g. accrued expenses and stores incorporated in their accounts, procedures should be established to offset the balances on these accounts before reporting to Danida on the MRS.

2.4 Financial Years

Danida's financial year follows the calendar year. The financial year of the government of the recipient country and the counterpart organization is often different from the calendar year, e.g. July/June. As decentralised project accounting is not to be used where the recipient partner is responsible for implementation and financial management, but only in cases where the responsibility rests with Danida, it is recommended that the project use the calendar year as its accounting year. However, other accounting periods can be used. If another accounting period is used, the project must prepare an additional budget for the calendar year, to be used in Danida's accounts.

2.5 Currency

The project shall keep its accounts in local currency and report to Danida in local currency. Danida maintains accounts for the projects in Danish Kroner as well as in the local currency. The local currency accounts in Danida's books shall correspond to the books of the projects. Conversion of the project's monthly account (MRS) to Danish Kroner is done by the Representation at a standard exchange rate. The standard exchange rates used by the representation, based on the market rates, are revised regularly by the Representation.

If more than one currency are used by the project, conversion to the local currency are made within the project accounts and the project's accounting manual shall describe the principle and procedures used.

2.6 Interest

Interest from bank holdings cannot be used as part of the funding of the project. Interest earned shall be booked on a separate account in the accounting system. At the end of each accounting period, the project will transfer interest earned during the accounting period to the Representation for onwards transfer to the Danish Ministry of Finance.

2.7 Onwards transfers of funds to third party

In the case the decentralised accounting unit transfer funds to a third party institution for the implementation of programme/project activities, these activities must be governed by a contract between the decentralised accounting unit and the third party. It is the project/programme's responsibility to ensure that accounts are received timely and that they are appropriately audited. Procedures for approval of work-plans and budgets, transfer of funds, accounts, and audit shall be described in the programme/project's accounting manual.

3 Establishment of the Project Accounts System and Functions

3.1 Introduction

This section deals with the establishment of the project accounts system and the organization of the accounts section.

The accounts system should as far as possible be operating from the project's start. In reality, however, it may take some weeks or a couple of months before the accounts section is in operation, and the system is implemented. A manual cashbook should be used for recording expenses until the computerised system is in place. When the computerized system is in place all transactions from the beginning of the project shall be recorded in the system. It should be agreed with Danida that the first monthly report (MRS) may cover more than one month, where necessary.

If an ongoing project is changing to decentralised accounting the start up date of the new accounting system shall be agreed with Danida, and likewise if a project ceases to use decentralised project accounting the last day of reporting on a MRS should be agreed upon with Danida.

3.2 The Project Document

Preparation of the project follows the Aid Management Guidelines. However, special attention should be paid to the following issues if using decentralised project accounting:

Responsibility: The responsibility for implementation and financial management of the project shall be clear.

Flow of funds: The flow of funds from Danida to the project management shall be described.

Disbursement of funds: Who can incur expenditures under the Danida-appropriation?

The accounts functions of the project: The organisation of the accounts department. Who will keep the accounts? Is it to be kept by local project staff, or shall an expatriate adviser or consultant be in charge. The expenditures of the accounts functions and audit shall be included in the budget of the project.

The Project Document should include

- job descriptions for any expatriate adviser(s) responsible for the project including a description of the responsibilities related to the accounts functions

- job descriptions for local senior accounts staff;
- A description of the accounting and auditing procedures to be applied, including frequency, institutions/partners involved, responsibility, feedback mechanisms.

Budget Lines

The budget lines according to which the project will report are normally stated in the Board Approval Paper. The budget lines may be modified according to recommendations in review reports.

Procurement

The project shall follow Danida Procurement Policy and Procurement Guidelines. These can be downloaded from <http://www.amg.um.dk>

Audit cost

The audit shall be paid out of the general project appropriation. This should be considered when making the project's budget.

3.3 Establishment of the Accounting Unit and System

The project shall at an early stage and within the frame of the project document, prepare a plan for the detailed organization of the accounts functions and the establishment of the accounts system. The main issues are:

Organization

The organization and staffing of the accounts section should be outlined in the Project Document. It is, however, the task of the project management to make the detailed organization, including necessary backup. Attention should, inter alia, be given to: a) how shall the accounts functions be organized, b) what functions will be carried out, and c) where shall the staff be placed, and to whom do they report. If the project requires accounts staff in the field, the considerations should also be given to issues related to available office facilities, communication and reporting to head quarter, etc.

Staffing

How shall the accounts functions be staffed, from where is staff available, and what training is required. Job descriptions shall be prepared for all the accounts staff. On top of training necessary to do the specified job a further training for capacity building may be included in the project support.

Choice of technology

Danida should be consulted both with regard to selection of hardware and software for the computerized system. It is recommended that the selection of accounting software is guided by availability and systems support locally. A simple spreadsheet (e.g. Excel) must not be used instead of an accounting package.

Chart of accounts

The project shall prepare a chart of accounts, which can fulfil the requirements of the project. Control of funds is essential. Management information and the possibility of monitoring the project's use of funds are equally important.

Although the project is free to prepare its chart of accounts as it finds most feasible, the chart of accounts shall be designed such that accounting information supports monitoring and control of funds. The chart of accounts must allow for monitoring expenses according to activities in the annual work plan and budget, and must enable reporting to Danida according to the budget lines in the grant and the project document.

Installation of the system

This activity will include installation of hardware and software, installation of the chart of accounts, entry of budget figures, and, in the case of ongoing projects, entry of opening balances.

Design of reports

Reports to Danida, and if applicable to the Steering committee and the national authorities, as well as internal accounts reports shall be designed.

Procedures

Procedures regarding cash handling, approval for expenditures, reporting, budget control and other internal control, including control of assets (fixed assets, stores, debtors and cash) shall be established and documented.

Filing

All bookkeeping material shall be filed so it is easy to retrieve, and it must be stored safely. Vouchers and other records must be kept until five years after the end of the financial year, in which the project is finalised. Six months before the end of the project, project management forward a list of accounting documents and forward it to the Embassy. Agreement shall be made with the Embassy as to where and how the accounting materials shall be stored after completion of the project.

The accounting material shall at any time be available for scrutiny by the Ministry of Foreign Affairs and the Danish Auditor General.

3.4 Danida's Standard Codes for Expenditure Types

For recording of expenses according to expenditure types Danida uses standard account codes. Expenses are recorded according to budget lines and within each budget-line according to expenditure type. The expenditure type code is the last two digits in the account number. Danida uses the following standard codes for expenditure types:

Number	Description	Remarks
02	Salaries: Salaries, overtime, etc.	
07	Employee benefits: Uniforms, shoes, medicine, etc.	
22	Education costs: Seminars, work shops, training course fee, etc.	
24	Travel costs:	

	Transport and daily allowance	
25	Office expenditures: Postage, telephone, telex, paper, printed matters, news papers, office utensils, photocopies, etc.	
29	Loss of funds: Minor cash differences, loss by theft or by misuse of funds.	Loss by theft or by misuse of funds shall be reposted to this account and the incident reported to the Embassy/Representation who will report the matter to the Ministry of Foreign Affairs for onwards transmission of information to the Office of the Auditor General in accordance with separate instructions.
30	Entertainment	Entertainment expenses in projects/programmes are only allowed after prior approval from the Embassy/Representation.
33	Fees: Payment to companies and institutions on contracts, e.g. consultancy.	This standard account number shall not be used for audit fees.
35	Audit	
36	Shipping and insurance Shipping, insurance, clearing and forwarding expenses.	
40	Equipment: Cars, trucks, motorcycles, furniture, computers, calculators, typewriters, etc.	To be recorded on inventory lists.
50	Running costs and maintenance, means of transport: Fuel, taxes, insurance, rent of means of transport, etc.	
51	Running costs and maintenance other than means of transport: Materials for consumption, Film, medicine, hospital articles, chemicals, packing materials, glass and bottles for laboratories, books, electricity, gas, water. Installations, fences, gardens, etc. Rent of office machines.	
59	Rent: Store rooms, offices, and staff residences.	
60	Materials for production	

62	Grants: Payments to NGOs where audited accounts will be received.	Use of this account can only be after prior agreement with the Embassy/representation. The project is responsible for ensuring that audited financial statements are received and forwarded to the Embassy/representation.
64	Grants Payments to NGO's to be settled by original vouchers	Do.
72	Materials and salaries for construction: All purchases against individual vouchers and salary bills.	
73	Purchase of real estate	
85	Sales: Sale of materials and services (e.g. photocopies)	
97	Exchange rate differences: Differences arising from using more than one currency in the project.	

4 Accounting Manual

4.1 Introduction

The project shall develop an accounting manual. The manual shall give an explicit description of the project's accounting procedures and of the organisation of the accounting function and the accounting system and related systems. The manual shall stress the project-management's responsibility to maintain a sound record-keeping system, and to control the use of funds in relation to achievement of objectives.

The manual shall be prepared as an integrated part of the process of establishing the accounts section and setting up the accounts system. When preparing its accounting manual the project shall follow the lay out of the model annexed to this guideline as far as possible and feasible. The project should delete sections, which are not applicable and add sections, which the project finds of relevance.

The manual shall be prepared at the outset of the project. The manual will serve as a reference guide for programme/project management and staff, members of the Steering Committee, auditors, and Danida representatives.

4.2 Preparation and maintenance of the project's accounting manual

All projects using decentralised accounting shall have an accounting manual describing the specific accounting procedures of the project. Annex 2 of these guidelines contains a model for a project accounting manual, which may serve as a template for the preparation of the manual

for the individual project. The auditor or other external consultants may be requested to assist in the preparation of the manual as found feasible.

The model is to be used, as a guideline throughout the establishment of the accounts section and system, and the model should be prepared as part of this process. If a project already has an accounting manual, this manual shall be revised when establishing the decentralised accounting set-up. As shown in the model, other systems like stores management system, transport, and monitoring, may be included in the accounting manual, or they may be described in separate manuals depending on the size of the systems and the organization of the project. It is essential that the relationship between the accounting systems and other systems is clearly described in the accounts manual together with the relevant procedures.

During the implementation of the project the manual shall be reviewed and updated at least once a year following the annual audit incorporating the auditor's recommendations regarding accounting and control procedures. An updated version shall be forwarded to all holders of the manual, including Danida and the auditor.

4.3 Approvals

The accounting manual shall be forwarded to the project's auditors for comments and recommendations before it is presented to Danida, and where applicable the Steering Committee, for approval. The finalized manual shall be distributed to all budget responsible units, Danida and the auditors immediately after completion. The project shall get approval from relevant counterpart authorities with regard to reporting etc. as appropriate.

4.4 Model Project Accounts Manual

Annex 2 is a model for an accounting manual. The model is a guide to be used for writing the project's accounting manual. It can be downloaded from www.amg.um.dk and used as a template for writing the accounting manual.

The model contains a number of headings and sub-headings. Under each it is stated which subject should be described. The text is either shown in ordinary font, in which case it is suggested that the text is copied directly into the manual, or in italics, in which case the project shall describe the specific procedures used. It is strongly recommended to ensure that the project specific text gives directions about procedures rather than being policy statements.

One of the appendices attached to the model deals with procedures. It is proposed that the accounts related procedures be described in the format shown and that in the manual the procedures should only be outlined under the various headings with a reference to the appendix where the procedure is described in detail. However, the project can choose the approach which best suits it, as long as tasks are sufficiently described and responsibilities clearly assigned.

5 Audit Arrangement

An annual audit shall be made of the project accounts. The audit shall be by an external auditor, and be in accordance with International Standards of Auditing (ISA). The auditor shall be a certified public accountant. The selection of the auditor will be made by the Danida, and where

applicable, in consultation with the Steering Committee. DAC's technical guidance notes on selection of a private sector audit firm and specimen terms of reference for external auditors for donor-supported projects and sector programmes is recommended be used as a reference when selecting the auditor and preparing the terms of reference for the audit. DAC's technical guidance notes can be downloaded from www.oecd.org/dac.

Annex 1 is a proposal for an audit agreement, for the project to use as guidance when making an audit agreement. However, it is important that the project management ensures that all project specific issues which are not included in the generic agreement is part of the terms of reference for the auditor, and that the Terms of Reference is attached to the audit agreement. Danida, in consultation with the Steering Committee, shall approve the specific terms of reference. The audit agreement, signed by the auditor and Danida, shall be co-signed by the project's management.

The annual audit shall include - but not be limited to - inspection of accounting records including examination of documentation for transactions, confirmation of cash and bank-balances, check of bank reconciliation, direct confirmation of accounts receivables, and verification of physical inventories and fixed assets. The audit shall include an audit of the accounting and procurement function including test of compliance with the accounting and procurement procedures.

In the case the decentralised accounting unit transfer funds to a third party institution for the implementation of programme/project activities, the annual audit shall include a review of the contracts and procedures governing these arrangements as well as stock taking and a review of audited financial statements received from these third parties. The auditor shall make a reconciliation of audit reports received to the programme/project's bookkeeping.

The audit report shall include a financial statement (signed by project management) for the fiscal period audited and a memorandum of examination. The audit report, together with the project managements comments to the report and replies to all questions raised in it shall be presented to Danida and where applicable the Steering Committee not later than five months after the end of the accounting period. One original copy of the audit report shall be forwarded to Danida immediately after completion.

6 Guidelines to staff at the representation

6.1 Roles and responsibilities

Danida is responsible for the overall monitoring of the project implementation and the development in project activities. In most cases this responsibility rests with the Representation in the country where the project is based. The responsibility includes, but not limited to:

- o Ensuring that financial reports are regularly received and that prompt action is taken on issues and problems identified;
- o Ensuring that independent auditors audit the project's accounts annually, and that there is a final audit at the end of the project;
- o Ensuring that action is taken promptly on issues and problems raised in Steering Committee Meetings, in regular progress reports or identified by the auditor.

- o Ensuring that the project's procurement is carried out in accordance with Danida's Procurement Guidelines.
- o Ensuring that annual work plans, budget and procurement plans are developed and approved according to procedures laid down for the programme and project assistance.

The responsibility for implementation and monitoring of a project with decentralised accounting will normally rest with the Desk Officer or Local Programme Officer at the Representation. He/she will be responsible for actively monitoring that the project is implemented in accordance with the appropriation note, the programme document, the government agreement, and other binding agreements in consultation with the Chief Financial Officer at the representation. Further guidance on the roles and responsibilities is found in the Organisation Manual for the Management of Danish Development Co-operation which can be downloaded from: www.amg.um.dk. The Representation's Organisation Manual and Bookkeeping and Accounting manual shall describe the division of roles and responsibilities within the Representation regarding implementation, monitoring, accounting and auditing of decentralised accounting projects.

6.2 Review and Recording of the Monthly Reporting (MRS)

The procedures for review and recording of the monthly reporting from the projects with decentralised accounting shall be described in the Representation's Bookkeeping and Accounting Manual. The Representation shall maintain a list of all projects with decentralised accounting and keep an overview of reports received. The Representation is responsible for ensuring that monthly reports are received and recorded in the Representation's accounts timely.

On the receipt of the project's monthly report, which shall be signed by the project manager, the Representation shall:

- Check that all required supporting documents are attached to the monthly report, i.e.:
 - o MRS
 - o Trial Balance
 - o Cash check statement (cash at hand vs. balance on trial balance) – signed by project manager and accountant
 - o Bank reconciliation with copy of the bank statement. Signed by project manager and the accountant
 - o Statement of the interim account
- Make reconciliation's of accounts, i.e.:
 - o The interim account (96)
 - o UMF-Rep and project accounts:
 - o Cash
 - o Bank
 - o Current account

The Representation shall enter accounts data into the Representation's accounts timely and on a monthly basis. The Representation shall ensure that proper procedures for handling of the projects' monthly reporting are in place. The procedures shall clearly describe the tasks to be carried out as well as assign roles and responsibilities. The procedures shall be described in the Representation's Bookkeeping and Accounting Manual.

6.3 Review of audit arrangement and annual audit report

The Representation shall review the annual audit report including the auditor's report on the examination of accounts, and reconcile the audited financial statement with the project's balances in UM-Finans/UMF-Rep. The Representation shall ensure that any material issues raised in the auditor's report is appropriately and timely followed up and appropriate actions taken.

As documentation for the Representation's review of the audit report the Representation must complete the accounting Cover Note: 'Decentralised Project Note' (the note and a guide to the note can be downloaded from T-Rex). The desk officer and the financial controller at the Representation shall approve the Cover Note. In those cases where there is no financial controller at the Representation, the regional financial controller must approve the audited accounts and sign the Cover Note. Documentation for completion of the Cover Note and actions taken for follow up on the audit report must be filed on the Representation's project file.

The division of responsibilities and procedures related to receipt, review, and approval of the financial statements and annual audit report, completion of Cover Note, and registration of the accounts shall be described in the Representation's Bookkeeping and Accounting Manual.

Annex 1: Audit Agreement

The agreement with the external auditor may be based on the following:

- a) Identification: Statement identifying the precise project to be audited, along with project location(s), and responsible staff.
- b) Performance and scope of audit: Statement establishing that the audit will be performed in accordance with internationally recognised audit principles based on the instructions for project accounting, including the accounts manual.
- c) Auditing and reporting during year: Statement establishing that at least one un-notified audit of assets will be made per year, including cash check, confirmation and reconciliation of bank accounts, direct confirmation of selected account receivables, and observation and verification of physical inventories and fixed assets where applicable. Regular random inspections of accounting records - including detailed examination of vouchers - will be made roughly every quarter depending on the level of project activity. A report on examination must be submitted to the Embassy immediately after the audit has been performed, and a copy must be sent to the project. The audit work should be planned in such a manner that the major part of the examination will be completed at an interim stage.
- d) Auditing and reporting of annual accounts: Statement establishing that at the end of the calendar year (in some cases the end of the fiscal year) the accounts are to be fully audited, certified accordingly, and submitted to the Embassy, supported by the auditor's remarks. Material exceptions should be noted in the report while less significant items should be included in the memorandum of examination, as specified below. The date for audit completion must be specified in the agreement (normally not more than two-three months after the end of the fiscal year).
- e) Memorandum of examination: Upon completion of the audit (see above) a memorandum of examination should be prepared, stating the auditors observations and recommendations regarding the following items:
 1. Material changes in accounting principles.
 2. The adequacy of the project's accounting function.
 3. Any material internal control weakness that is observed during the audit. If any, the project should be provided with a description of the weaknesses and the recommendation and improvements applicable. If appropriate a separate internal control memorandum should be issued.
 4. Material change in scope of operation.
 5. Comment of possible misuse of donations received from Danida in relation to the agreement between Danida and the Project Implementing agency and the approved budgets.
 6. Compliance with tax and other local legislation.
 7. Any matters which have come to the auditor's attention during the review of the next year's work plan and budget which will be of interest to the project.

- f) Other tasks: Statement specifying which other services the project wishes the auditor to perform. Examples include preparation of annual accounts, monthly bookkeeping scrutiny prior to submission of documentation to the embassy, computer bookkeeping, consulting regarding the implementation of decentralisation, etc.

In the case the decentralised accounting unit transfer funds to a third party, the contract shall include a requirement for the auditor to include a review of the contracts and procedures governing these arrangements as well as stock taking and a review of audited financial statements received from these third parties in his work, including reconciling the audit reports received from third parties to the programme/project's bookkeeping.

- g) Termination and fees: Statement establishing the term of the agreement and the rules for termination. In addition, establishment of the size of fee or method of calculation, and of when the fee is due for payment. Normally the note of charge should be sent not later than four months after year-end.

Annex 2: Model for Accounting Manual

The next section is a model for an accounting manual for projects with decentralised project accounting.

Annex 2:

Model accounts manual for projects with decentralised project accounting.

ACCOUNTS MANUAL

FOR

[NAME OF PROJECT]

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1 INTRODUCTION

1.1 Purpose and Scope of the Manual

The purpose of this accounts manual is to have an explicit description of the agreed accounts procedures of the project, and of the organization of the accounts functions, the accounts system and related systems.

The manual shall be used as a reference book by project staff, auditors and Danida representatives, and it shall be used in connection with training of accounts staff of the project.

1.2 Distribution and Maintenance of the Manual

The copies of the manual shall be individually numbered on the front page. Holders of the manual shall be listed in an Appendix to the manual (see Appendix 8). The holders shall include the Embassy and the External Auditor.

The person responsible for the maintenance of the manual shall be named. It should be stated that users of the manual who wish to propose amendments or additions should contact the person responsible. Routines for distribution of new or revised pages to all holders shall be described here.

1.3 Objectives

The project accounting shall meet the following objectives:

Reporting

The accounts system shall provide the project management with the necessary financial information required to ensure efficient project implementation.

The accounts system shall provide for accurate and timely financial reporting to Danida and to the government according to prevailing rules and agreements.

Control

The accounts system shall provide for efficient control and monitoring of the use of funds and other assets made available for the project.

2 THE ORGANIZATION

2.1 The Project Organization

When setting up the accounts system and designing the chart of accounts it is necessary to have a clear picture of how the project management shall take place.

The overall purpose of the project and the project organization shall be described. The project organogram may be included here or as an appendix. The relations to the counterpart ministry/ organizations shall be described. E.g. is the project receiving funds from government or is the project channelling funds to the counterpart.

The reporting channels, external as well as internal, shall be stated.

2.2 The Accounts Section

The organization of the accounts functions/ the accounts section shall be described. Job descriptions for all accounts staff shall be prepared and shown as appendix (see Appendix 4).

Specific accounts related organizational issues should be described here. For instance:

*who are having imprest accounts,
where are stores held,
how is transport organized.*

3 THE RELATIONS TO DANIDA'S ACCOUNTING SYSTEM

This chapter describes the relations between the project accounts and Danida's accounts. The purpose of the chapter is to state the principal relation between the two parties. The specific procedures and forms are dealt with later in the manual.

When Danida transfers funds to the project or if Danida makes purchases on behalf of the project, an interim account for the project in Danida's books is debited.

When the project receives funds or invoices for goods or services, paid by Danida, the Danida grant account in the project accounts is credited and the respective asset and/or expenditure accounts are debited. *If the contract office in Danida is responsible for a contract the expenditures are booked on a budget line reserved for this purpose and the expenditure thereby not included in the decentralised accounts.*

By the end of the month the project prepares its monthly finance report to Danida, the MRS. The MRS is an entry advice from the project to Danida. Through the MRS the project advises Danida to credit the interim account with an amount corresponding to the total funds/goods/services received by the project as informed by Danida during the month, and debit the relevant asset/expenditure accounts (budget-lines).

On a monthly basis Danida forwards an accounts statement of the interim account and of the asset/budget-line accounts to the project. It is the responsibility of the project to reconcile these accounts with the books of the project. The balance of the interim account shall be zero after Danida has booked the latest MRS. Any balance in the interim account will represent funds or goods in transit, i.e. funds or goods sent from Danida but not yet received by the project when the statement was prepared.

4 SPECIAL ISSUES

This chapter deals with a number of issues, which the project shall consider when setting up its accounts system, and before making its chart of accounts. In the final accounts manual those issues shall be included which are relevant for the project.

4.1 Several Donors

If the project has other donors (including the Government) than Danida, one grant account for each should be established.

Contributions from the donors shall be credited to the respective grant accounts and debited to the relevant assets or expense accounts.

Contributions from other donors shall be reported monthly to Danida as a credit entry on the MRS. The accounts on which to credit the non-Danida grants shall be agreed with Danida/the Embassy.

4.2 Current Account Book (Debtors)

The project shall maintain individual accounts for all debtors.

A list of debtors shall be produced monthly by the accounts section, showing the age of the individual debts. The list shall be presented to management for possible action with regard to recovery or change of policy, particularly with regard to advances. If decided so the list shall be forwarded to Danida as part of the monthly reporting.

If the project finds that a debt is irrecoverable, in spite of all attempts to collect it, it should be written off, and debited to a "loss on bad debts" account (standard code 29). Danida shall be informed about all such write-offs.

4.3 Stock

Danida is following a cash basis of accounting principle. That means that all purchases of materials and parts are considered as expenses at the time of payment, even if the goods are kept as a stock for later use by the project.

If the project has a stores function a proper stock control system shall be established. The project should together with Danida decide whether the stock control should be made completely outside the accounting system, or whether stores accounts should be established.

Whether the stores accounts should be established will depend on the type of project and the budget system. If a project e.g. has several construction sites, and construction materials are bought in bulk for later

distributions to sites, and the project prepares budgets for the individual sites, a stores account may be introduced.

4.4 Fixed Assets and Assets Register

Fixed assets are defined as buildings, vehicles, equipment and furniture and fixture used by the project in its day-to-day operation. Project fixed assets do not include constructions, equipment, etc. which are immediately handed over to the beneficiaries as part of the project outputs.

The project shall maintain a register of fixed assets where the individual items are registered with a reference to item number, location, date of purchase, invoice number and value. The individual item should be numbered so that it is easy to identify.

Fixed assets are expended at the time of purchase. It means that there shall be no fixed assets accounts in the balance sheet of the project, and consequently the project is not having any depreciation accounts.

Although the project will not have fixed assets accounts in its balance sheet all purchases of fixed assets should be debited to distinct expense account(s) (Danida's standard code 40). The balance of the account(s), project to date, should agree with the total balance of the fixed assets register. The balance of the accounts and the register should be reconciled at least once a year.

The revenue of any sales of fixed assets should be credited to the respective expense accounts, unless otherwise agreed with Danida. Sale or disposal of items shall be registered in the fixed assets register with a reference to the sales invoice, receipt or other documentation for the disposal.

4.5 Accrued Expenses

Danida is following a cash basis of accounting principle. That means that expenses are only booked when they are being paid.

The project may, however, have some commitments, which it incurs long time before actual payment is due. Examples are procurement orders, lump sum payments to NGO's, retention money in connection with construction work etc. Such commitments should be registered in the accounts or on a separate list to make a complete management report of expenditures and commitments possible.

4.6 Project to Date

The project shall keep a record of project expenses from project start. This record may be kept in the accounts system or outside the accounts.

4.7 Different Financial Years

Danida's financial year follows the calendar year. The financial year of the Government or the counterpart organization will often be different from the calendar year, e.g. July/June.

Reporting to Danida and to Government shall follow their respective financial years. Project budgets may be prepared following the financial year of the Government, whereas Danida requires budgets and estimates following the calendar year.

When setting up the accounts system, the differences in financial years must be taken into consideration and a reconciliation of the expenditures must be shown in the annual accounts. The MRS will for any period represent the final booking for this period. No repostings shall be made in the annual accounts, which is not presented, in the forwarded MRS reports, but materially errors and omissions should be commented on in the notes to the annual accounts.

4.8 Rates of Exchange

The project is keeping its accounts in the local currency, and is also reporting to Danida in local currency on the MRS. The agreement between Danida and the recipient Government with regard to the total project grant is normally made in Danish Kroner.

Danida is using a standard rate of exchange for each currency. All transactions in Danish Kroner are converted at the standard rate. Danida revises the standard rate as and when required. The rate will always be the same within a calendar month. Due to the fluctuations in the exchange rates and the use of standard rates by Danida, exchange differences will "build up" in the Danida accounts. Danida will at intervals debit or credit the individual projects with their "share" of the exchange differences. Such adjustments will have no influence on the accounts kept by the project (in local currency), but will influence the total grant to the project in Danish Kroner.

If the project uses other currencies than the local currency, e.g.. US-dollars, the foreign currency should be converted to local currency in the accounts. The current exchange rate will be informed by the Embassy when funds are transferred to the project from the Embassy. The project should keep track of both currencies for these transaction by using a cash-book containing 4 rows: cash in local, bank in local, bank in local converted from foreign and finally bank in foreign currency. When a transfer of funds takes place the exchange rate might change. At the time of this change the balance shall be calculated and the exchange rate difference booked. From that date the new rate of exchange will be used. A specification of the calculation of the exchange rate difference should be filed together with the cashbook and the vouchers. The same goes for booking of differences occurring when funds are transferred from the foreign to the local bank account, as the standard rate informed by the Embassy should always be used.

5 CHART OF ACCOUNTS

The chart of accounts shall be made so that it is possible for the accounts system to provide the necessary information for achieving its objectives, i.e. external reporting, control, and internal management information. The project management and the Embassy shall prepare the chart of accounts jointly.

5.1 Structure

The structure of the chart of accounts must clearly reflect the activities and organisation of the project as outlined in the project plans (and the logical framework).

The chart of accounts therefore must be formulated individually to meet the requirements of the project, but at the same time conform with Danida's Standard Accounts Plan, shown in Section 2 of the Guidelines. The need to monitor the activities and output of the project against the financial input must be considered when preparing the chart of accounts.

There must be a clear correlation between the chart of accounts and the budget lines in Danida's accounts system. The budget lines should be the same as those mentioned in the Board Approval Paper, cf. definitions in 3.1.

In this chapter the principal structure of the chart of accounts shall be described, including the relation between the project accounts and the budget lines. The complete chart of accounts shall be shown in Appendix 1. The chart shall show the correlation with the budget lines.

The budget lines shall be shown in Appendix 2.

Appendix 2 shall also show the votes or budget lines according to which the project shall report to Government, if such reporting has been agreed.

5.2 Maintenance of Chart of Accounts

Changes to the chart of accounts should be avoided as much as possible. Changes may, however, be required, and it must be stated who can approve changes and who shall carry them out. Changes should preferably be made as per the beginning of a financial year.

6 THE ACCOUNTING SYSTEM

This chapter describes the accounting system and its functions.

6.1 The Technical Set-up

The main features of the computerized system and the various modules shall be described. This may include:

Hardware configuration:

Software, e.g.:

*General Ledger
Debitors System
Stores System
Payroll System*

Service:

It shall be stated (in an appendix) who gives service and support on hardware as well as on software.

In the appendix a condensed manual on the computer system may be included or it may be included in this chapter. The system manuals for both hardware and software should be kept in the accounts section.

6.2 Security Procedures

The security procedures include such issues as daily back up, the protection of back-up files and documents, virus checks, and the administration of passwords to the computer system. Procedures should be described in detail in Appendix 3 or in the condensed computer manual.

6.3 Filing

Rules and procedures for filing of accounts material must be prepared and described. The project shall keep the accounts material safely for the whole project period. The accounts material shall by the end of the project be handed over to the Embassy.

7 ACCOUNTING PROCEDURES AND REPORTING

7.1 Responsibilities

The Danida employed [*state who*] has the overall responsibility to Danida for the economic management of the project.

This responsibility implies among other things the following duties:

establishment of secure procedures in the economic administration, including specification of authority delegated to other project officers

establishment of detailed rules for authorization to sign vouchers for payment

responsibility for all cash and bank holdings and other assets recorded in the books

current control with the project budget, including necessary recommendations to Danida concerning project reviews and adjustments

the supervision and random control of cash holdings and the daily bookkeeping.

7.2 Transfer of Funds from Danida

Usually cash funds will be transferred from the Embassy to the bank account of the project on the project's request. The Embassy will send a copy of the transfer voucher to the project. The project will enter the amount in the cashbook, and submit a receipt to the Embassy.

Funds may also be transferred in the form of purchases made by Danida on behalf of the project. In cases where Danida makes purchases on behalf of the project the cost of the purchases will be debited to the project's interim account.

The original purchase voucher or invoice will be forwarded from the Accounts Office of Danida to the project, showing the amount in local currency as used by Danida. On receipt of the invoice the Danida Grant Account is credited and the relevant expense account is debited in the project accounts.

The procedure for ordering and receiving funds in the form of cash or through purchases from Danida is described in Appendix 3.

7.3 Cash Handling

This chapter deals with all aspects of cash handling within the project, cash in hand as well as cash in bank.

The chapter is divided into the following sub-sections:

- Authorization of Signatories
- Cash in hand
- Imprest
- Receiving funds
- Payments
- Daily cash reconciliation
- Bank reconciliation

Authorization of Signatories

It shall be stated who can incur expenditures and up to what amounts. All who have authority to incur expenditure on behalf of the project shall be listed, and the limitations on that authority (type of expenses and amounts). Special note shall be made of authorization to sign procurement orders. Is more than one signature required? These rules shall be agreed with the Embassy.

Persons authorized to sign for payments on behalf of the project are shown in the list of signatories in Appendix 9.

Check of the vouchers, including checking that the right accounts number is used, shall be done by the authorised person before signing the voucher.

The list of signatories shall specify:

- The name and designation of the signatory*
- A sample of the signature*
- A sample of the initials*

The list shall also indicate the date from which the signatures are valid. The list is signed by the project coordinator/manager.

Each time a name is added or deleted a new list must be issued to substitute the previous one and a copy to be sent to the Embassy.

The word "payment" should be understood as:

- cash/cheque payments to be debited to an expense account
- cash/cheque payments to be debited to the account current book

Advance payments for travel or other project related purposes made to project staff, can only be authorized by the project management.

A separate list of signatories authorized to sign cheques is to be prepared and copies forwarded to the Embassy.

Cash in hand

The following shall be stated:

- *who is responsible for cash in hand, and how it is kept,*
- *who has the key for the safe,*
- *how much cash in hand is the project allowed to keep, and what are the rules for banking of surplus funds,*
- *how to order chequebooks, safekeeping of chequebooks, and rules for maintaining the cash/bank book.*

Imprest

If the project pays advances (imprest) it shall be stated:

- *Who are having imprest accounts and what are the amounts.*
- *How often shall the imprest accounts be replenished (when an imprest is replenished the holder shall hand in all vouchers for payments made plus the cash balance of the imprest amount to the cashier, who will then pay out the full imprest amount again).*
- *What can imprest be used for (type of expenses).*

Receiving funds

It shall be stated:

- *What type of receipt is being issued when funds is received by the project. (The receipt form shall be shown in Appendix 5)*
- *When receiving funds from Danida a receipt shall be forwarded to the Embassy.*
- *In case the cashier and the bookkeeper is the same person it is the duty of the person who signs a "cash cheque" to ensure that the cash cheque has been recorded correctly in the cash/bank book.*

The procedures for receiving money shall be described in Appendix 3.

Payments

Rules for issue of cheques including signatories.

For all expenditures the cashier shall prepare a payment voucher (to be shown in Appendix 5). Original invoices and receipts shall be attached to the voucher. The person approving the payment shall sign on the voucher, and on the original document.

The project may have special vouchers prepared, e.g. for paying salaries to staff (see payroll system in chapter 8) and for imprests. (The vouchers shall be shown in Appendix 5).

The procedures for approving and making payments shall be described in Appendix 3.

Daily cash reconciliation

The rules for keeping the cash and bankbook are described above. This sub-section shall describe the daily reconciliation of cash in hand with the cash and bankbook. Any differences shall be reported to the Project Coordinator immediately.

Bank reconciliation

When accounts statements are received from the bank they shall be reconciled with the bank account in the cash and bankbook. Differences shall at once be investigated with the bank if necessary. Bank statements shall always be received and reconciled by the end of the month.

The following procedure is used for reconciliation:

Balance as per Bank Statement		xxxxxxx
less cheques not yet debited by bank:		
Cheque No.	Amount	
xxxxxxx	xxxxxxx	
xxxxxxx	xxxxxxx	
xxxxxxx	<u>xxxxxxx</u>	<u>xxxxxxx</u>
Sub total		xxxxxxx
Plus money deposited, not yet received by bank (if any)		<u>xxxxxxx</u>
Total (shall agree with project account)		<u>xxxxxxx</u>

The project shall include a copy of the bank statement, and of the reconciliation, in its monthly reporting to Danida (see chapter 7.5).

7.4 Daily Accounts Procedures

The daily accounts procedures, i.e. the actual maintaining of the accounts, shall be listed and described.

They shall include:

Receipt and check of vouchers, cash and non-cash. The check shall include check of authorization, and check of the arithmetic.

Numbering of vouchers.

Actual bookkeeping. (The actual procedures in connection with computerized bookkeeping may be described in a separate Appendix (Condensed Manual - see chapter 6). These procedures may include the starting up of the system, data entry, production of journals, back-up etc.).

Control of data entry.

Filing of vouchers and journals.

Possible daily/periodic reports to management (not month end).

The accounts procedures shall be described in details in Appendix 3, with reference to the relevant forms in Appendix 5.

7.5 Monthly Procedures and Reporting

The monthly procedures shall be listed and described. They include:

- *Closing of the accounts*
- *Preparation of MRS and other reports to Danida*
- *Preparation of report to Government*
- *Preparation of internal accounts and management reports*
- *Reconciliation of accounts with Danida on receipt of the accounts statements from Danida.*

Closing of the Accounts

The procedures for closing of accounts shall be described:

Transactions to be checked every month shall be listed. They may include payroll, reports from transport section, stores, imprests, etc.

The actual routines in connection with the monthly closing, e.g. production of trial balance, statements of accounts, etc. may be described in the Condensed Manual for the system.

The procedures should be described in Appendix 3, and the relevant forms and reports shown in Appendix 5.

Preparation of MRS and other Reports to Danida

The MRS is used to report the accounts transactions of the month to Danida. A filled in example of the MRS report is shown in Appendix 6.

It must be noted that the MRS shows the total of the transactions of the months per budget-line, and that the values shown are in local currency.

For each budget line the month of the transactions should be shown using three letters. The month will then be shown in the text column in the statements from Danida (see example in

Appendix 7). The indication of the month will help in identifying the transactions of the individual months e.g. in cases where two MRSs are entered in the same month in Danida, due to late arrival of the forms.

The MRS is a bookkeeping order from the project to Danida, which transfers funds from the project's interim account to the relevant budget lines and asset accounts.

The preparation of MRS shall be described in Appendix 3.

In case the project has other assets and liability accounts in its books, procedures for "ignoring" them in the reporting to Danida must be described.

The MRS shall be printed on paper and signed by project management and countersigned by the accountant before forwarding to Danida.

The project shall forward its reports to the Embassy, not later than the {xxth} of the following month. The following reports shall be forwarded:

MRS

Trial Balance

Reconciliation of the Danida Grant Account with the latest received Statement of Accounts.

Copy of bank statement with reconciliation

The following reports **can** be forwarded depending on the arrangement with the Embassy:

Copy of the last page of the manual cashbook

Copy of age divided current account report

Statement of the Danida Grant Account (Account No. {xxxx})

Preparation of report to Government

Procedures for reporting to the Government shall be described in Appendix 3 and the actual report(s) shown in appendix 5.

Monthly Reconciliation's of Accounts with Danida

The project will on a monthly basis receive accounts statements from Danida. The statements are:

DW [*state the report number from Embassy*] showing the transactions of the month on the individual budget lines in Danida's accounts.

DW [report number] showing the transactions on and the balances of the project assets accounts with Danida - including the interim account.

DW [report number] is a statement of all project accounts, year to date, in Danish Kroner.

DW [report number] is a statement of all project accounts, year to date, in local currency.

The project must every month reconcile the Danida statements to its own books. In principle the report DW [number] shall only show the transactions which have been initiated by the project through the MRS for budget lines used by the project and payments made by the Foreign Ministry for budget lines where it is agreed to book certain expenditures directly.

The project must also every month reconcile the statement for the balance account [DW xxxxx] (for the local currency) with the balance sheet accounts of the project, cash, bank, account current book, and interim account. The balance accounts, apart from the interim account shall only show transactions initiated by the project through the MRS. The interim account will show the credit transactions initiated by the project through the MRS as well as the transfers, which Danida has made to the project. Balances on the project interim account with Danida will refer to transfers not received by the project by the time the latest MRS was issued.

The project shall notify the Embassy of any discrepancies between the project accounts and the statements from Danida.

The procedures for reconciliation shall be described in Appendix 3.

7.6 Annual Procedures and Reporting

By the end of the financial year the books of the project shall be closed, i.e. the expense accounts shall be zeroed against the grant account, and assets (cash, bank and account current book) carried forward to the next year. The accounts shall be audited as stated below.

The project may have a financial year, which is different from the financial year of Danida (which is the calendar year). In that case the project must establish procedures for reconciling its accounts with the statement from Danida on an annual basis, covering the calendar year.

The annual accounts shall strictly follow the reporting made to Danida during the year including the use of budget-lines. A note to the accounts shall show the expenditures divided in standard account codes. The following format shall be used for the overall accounting for the year:

	This year	Last year
Expenditures and income:		
budget line no. 1	xxx.xxx	xxx.xxx
budget line no. 2	xxx.xxx	xxx.xxx
budget line no. 3	xxx.xxx	xxx.xxx
budget line no. 4	<u>xxx.xxx</u>	<u>xxx.xxx</u>
etc.		

Total expenditures and income	<u>XXX.XXX</u>	<u>XXX.XXX</u>
Assets and liabilities:		
cash	XXX.XXX	XXX.XXX
bank holdings	XXX.XXX	XXX.XXX
imprest	XXX.XXX	XXX.XXX
interim account	XXX.XXX	XXX.XXX
interest	<u>XXX.XXX</u>	<u>XXX.XXX</u>
Total assets and liabilities	<u>XXX.XXX</u>	<u>XXX.XXX</u>

In cases where the project's accounting period does not follow the calendar year the expenditures per budget lines shall be shown in a note to the accounts divided in calendar years.

8 OTHER SYSTEMS AND PROCEDURES

Depending of the nature of the project a number of other systems may be designed and operating in the project. Such systems may be described in separate manuals, or may be included in the accounts manual. In any case should procedures relating to other systems, but which are involving the accounts, be described in this chapter.

Headings for the most common systems are listed.

8.1 Purchasing

If the project is making a large number of purchases separate procedures and systems may have to be designed.

That may include the issue of purchase orders, tender rules, etc.

The procedures for ordering through Danida shall be described (see also chapter 7.1).

It must be stated who has the authority to make purchases (see chapter 7.2).

8.2 Stores System

If the project is having stores of materials and parts it may be relevant to establish a formal stores system. Whether a stores system shall be connected to the accounts system or not, will depend on the accounts set-up (see chapter 4.3).

The stores system must provide for a proper control of the stock, with regard to receipt of goods, storing, and issue of goods.

The stores system may be described in a separate manual.

8.3 Transport System

Logbooks shall be kept for all project vehicles, whether there is a transport system or not.

If the project is having a transport component it may be relevant to establish a formal transport system. The transport system may be described in a separate manual.

The transport system shall include maintenance of logbooks, requisitions, maintenance plan, etc.

There should be clear interfaces between the transport system and the accounts system. It shall be possible to follow the cost of each vehicle per km (fuel and maintenance), and it may be relevant to charge transport cost to different activities or components within the project according to budget.

8.4 Payroll System

The payroll system/procedures of the project shall be described in the accounts manual. If the project has many employees it may be advisable to have a computerized system installed.

Issues like withholding tax, compulsory contributions, insurance, etc. shall be dealt with in connection with the establishment of the payroll system ensuring that local legislation are observed. Normally the auditor can advice on the legislation that have to be adhered to.

8.5 Monitoring System

When designing the chart of accounts the management must consider how it is going to monitor project achievement in relation to plans and in relation to funds spent.

The interface between the accounts system and the monitoring system should be described in this chapter. Also the relationship to the biannually progress report shall be described.

8.6 Assets Register

All projects shall have an assets register in which all fixed assets, which are managed by and the responsibility of the project, should be recorded. The assets register should refer to specific accounts in the project books, so that it is possible to reconcile the accounts with the assets register (see also chapter 4.4).

The project should contact the Embassy regarding possible availability of an assets register from another project.

The procedures relating to the assets register should be described in Appendix 5.

8.7 Onwards transfers of funds to third party

In the case the decentralised accounting unit transfer funds to a third party institution for the implementation of programme/project activities, these activities must be governed by a contract between the decentralised accounting unit and the third party. It is the project/programme's responsibility to ensure that accounts are received timely and that they are appropriately audited.

Procedures for contracting, approval of work-plans and budgets, transfer of funds, accounts, and audit shall be described in the programme/project's accounting manual.

9 BUDGETING

9.1 Annual Plans and Budget

The project shall prepare annual activity based work-plans and budgets as agreed with Danida. Reference is made to Danida's Aid Management Guidelines. The project's budget procedures shall be described in this chapter, including budget revisions during the year and reporting of budget figures to the Embassy.

9.2 Budget Revisions

The project shall agree with the Embassy as to how often budgets shall be revised. The budgets must be revised at least twice a year, for the calendar year and for the rest of the project period. Normally the Embassy will need this information around 20th of February and 20th of September. The project shall however inform the Embassy of any known deviations from the budget, especially in the last months of the calendar year.

10 AUDIT

The project shall state when accounts are to be ready for the annual audit and who is responsible for preparing the accounts for audit.

10.1 External Audit

The project auditor is: *Name of the appointed external auditor.*

Audit is to be carried out according to the audit agreement in Appendix 10.

On receipt of the auditor's report the project management shall give its own report to the Embassy in which it shall answer/comment on the issues raised by the auditor in his report.

10.2 Internal Audit

Depending on the degree of administrative complexity the project may have to establish an internal audit function. The role and the procedures of the internal audit function should be agreed with the Embassy and with the external auditor, and be described in the manual.

11 List of Appendices

- Appendix 1: Chart of Accounts
- Appendix 2: Budget Lines
- Appendix 3: Accounts Procedures
- Appendix 4: Job Descriptions
- Appendix 5: Accounts Forms
- Appendix 6: Accounts Reports
- Appendix 7: Monthly Reports from Danida
- Appendix 8: Holders of the Project Accounts Manual
- Appendix 9: List of Signatories
- Appendix 10: Audit Agreement
- Appendix 11: Brief Computer Manual
- Appendix 12: Hardware and Software Service

Appendix 1: Chart of Accounts

Account Number	Name of Account	Danida Budget-line	Government Vote-No.
-------------------	-----------------	-----------------------	------------------------

For each account it shall be stated which budget-line, and if it is applicable, which Government vote it refers to.

The Danida budget-lines and, where applicable, the Government vote numbers are to be shown in Appendix 2.

The actual design of the accounts plan will, as discussed in chapter 5 of the model, depend on the organization of the project. Using a computerized accounts system will give a good possibility of establishing an accounts plan, which meets its requirements for information and control.

The chart of accounts shall conform with Danida's Standard Accounts Plan, which is shown in Section 2 of the Guidelines for Establishment of Project Accounting System. The account numbers and their sequence need not be the same as shown in the Danida account plan, but the project must be able to report its expenditures, on request, according to the standard plan.

The Embassy should be consulted in connection with the establishment of the accounts plan.

Appendix 2: Budget Lines

Project: [Name]

Danida

The project has the following budget lines in Danida's accounts:

Budget Line xx Danida A/C No. xxx.xxxx

The budget lines and the corresponding seven digit account numbers for lines used by the project and lines used by Danida, Copenhagen will be supplied by Danida and shall be stated in this appendix.

Government

The project has the following budget lines in its reporting to the Government:

Vote Government A/C No.

If reporting procedures to the government have been agreed the respective accounts or vote numbers shall be stated here.

Appendix 3: Accounting Procedures

Appendix No.	Procedure
01	xxx
02	yyy

The procedures described in the following pages should be listed. The procedures should be numbered, and in the main text of the manual reference shall be made to the procedures.

This appendix may e.g. include procedures for:

- Security (see chapter 6.2)*
- Request of funds from Danida (chapter 7.2)*
- Purchases through Danida (chapter 7.2)*
- Receiving cash (chapter 7.3)*
- Making payments (chapter 7.3)*
- Procedures for imprest accounts (chapter 7.3)*
- Maintaining cash/ bank book and daily reconciliation of cash (chapter 7.3)*
- Daily accounts procedures (chapter 7.4)*
- Monthly closing of accounts (chapter 7.5)*
- Monthly reporting to Danida (chapter 7.5)*
- Monthly reporting to Government (chapter 7.5)*
- Annual accounts procedures (chapter 7.6)*

Procedures (as applicable) relating to:

- Purchases (chapter 8.1)*
- Stores (chapter 8.2)*
- Transport (chapter 8.3)*
- Payroll (chapter 8.4)*
- Monitoring (chapter 8.5)*
- Register of fixed assets (chapter 8.5)*

The above list may not be complete, and the project should make description of other procedures as found relevant.

Procedure: {Name of Procedure}

Date: xx/xx/xx

Ref. Accounts Manual: Chapter x.x

NO.	ACTIVITY	RESP.	WHEN

Procedures should be described in details in this Appendix. For each procedure (or grouping of procedures) a form should be prepared. The procedure should be broken down into sub-activities, which should be given a number, described, the person or function responsible should be indicated, and the timing of the activity (daily, weekly, monthly) should be stated. Reference shall be made from the manual to the procedure No. and visa versa.

See example of a filled in procedure form on the next page.

EXAMPLE:

Procedure: Maintenance of cash/bank book

Date: xx/xx/xx

Ref. Accounts Manual: Chapter 7.3

NO.	ACTIVITY	RESP.	WHEN
9.1	A new page of the cash/bank book is opened every morning or when the previous page is full. The head of the page shall be filled in with the name of the project, month, and year. The previous balance of cash and bank is transferred from the previous page. (See form in Appendix 5.xx)	Cashier	Daily
9.2	When receiving/paying money a receipt (Appendix 5.xx)/ payment voucher (Appendix 5.xx) is issued. The receipt/payment voucher is given a voucher No. (all receipt/vouchers entered in the cash/bank book are numbered consecutively throughout the financial year).	Cashier	Daily
9.3	The receipt/payment voucher is entered into the cash/bank book, indicating: date, voucher No., particulars (i.e. the text that will be shown in the respective accounts), account number, amount (either cash or bank)	Cashier	Daily
9.4	When withdrawing money from or depositing money with the bank, no accounts number shall be shown. A line is drawn through the space for a/c No.	Cashier	
9.5	The end of the day, or when a page is full adds the columns in the cash/bank book added together. The balances are calculated, and carried forward to the next page (see 9.1). The actual cash in hand is counted and reconciled with the cash in hand shown in the cash/bank book. <u>Any</u> differences must immediately be reported to the CTA. The original page of the cash/bank book is torn out.	Cashier	Daily
9.6	The original page of the cash/bank book is together with the vouchers kept by the cashier over night, and is handed to the Accounts Assistant the following morning for entry into the general ledger.	Cashier	Daily

Appendix 4: Job description

Position

Date

The job descriptions included in this appendix shall be listed.

Job descriptions should be made for all staff in the accounts section (see chapter 2.2). The job descriptions shall be coordinated with the procedures (Appendix 3).

JOB DESCRIPTION

Position: {Title of the employee}

Responsible to: {Title of the person to whom the employee is reporting}

Supervising: {Titles of the persons supervised by the employee}

Responsibilities:

Describe the general responsibilities of the employee.

List the various duties of the employee. Reference to the procedures (Appendix 3 - "Resp.") shall be made as appropriate.

It may be relevant to list the duties of employees in the accounts section under the following headings:

General Duties

Monthly Duties

Annual Duties

Prepared by: {The title of the person who prepared the job description}

Approved by: {Signature of person approving the job description}

Date: xx.xx.xx

See the following page for Example

EXAMPLE

JOB DESCRIPTION

Position:	Chief Project Accountant
Responsible to:	Project Coordinator
Supervising:	Cashier, Accounts Assistants, Store Keeper

Responsibilities:

Responsible for all finance and accounts related matters of the project. These include the control of cash, debtors and other assets, maintenance of accounts, financial reporting externally and internally, participate in the preparation and revision of budgets, carry out budgetary control and supervision of accounts staff.

General Duties

Supervise the daily work of subordinate staff, and that all accounts work is being carried out according to the laid down procedures and job descriptions.

Manage the cash flow of the project including the preparation of requests for transfer of funds from Danida.

Propose revisions to chart of accounts, procedures and job descriptions if appropriate.

Maintain the Accounts Manual and distribute corrections to the holders of the manual.

Participate in weekly senior staff meetings.

Liaise with the project's external auditor.

Carry out budget revisions as requested by the Project Coordinator.

Carry out any other duties assigned by the Project Coordinator.

Monthly Duties

Supervise the closing of accounts, including reconciliation of bank accounts.

Prepare the monthly financial reports to Danida.

Prepare the monthly financial report to Government.

Carry out the monthly budget control and prepare the monthly management reports.

Scrutinize all outstanding advances, imprests and other debtors, and report any deviation from agreements to the Project Coordinator.

Carry out the monthly reconciliation of project accounts with Danida accounts.

Annual Duties

Supervise the closing of accounts.

Make necessary year-end adjustments, and supervise the transfer of opening accounts balances to next year.

Liase with the external auditor regarding annual audit according to the audit agreement.

Prepare annual accounts reports.

Prepare annual budgets in connection with the preparation of annual project implementation plans.

Prepared by: {The title of the person who prepared the job
description}

Approved by: Signature of the Project Coordinator

Date: xx.xx.xx

Appendix 5: List of Accounts Forms

This appendix shall contain a list of all internal forms and vouchers used in the accounts system of the project.

Examples of the forms should be attached as Appendix 5 A, Appendix 5 B, etc.

References to the forms shall be made in the manual and in the procedures (Appendix 3) as appropriate.

Appendix 6: Accounts Reports

This appendix should contain a list of all the reports, internal as well as external, produced by the accounts system of the project. The purpose of the reports shall be stated for each report.

Examples of the forms should be attached as Appendix 6A, Appendix 6B, etc.

References to the forms shall be made in the manual and in the procedures (Appendix 3) as appropriate.

Appendix 7: MONTHLY ACCOUNTS REPORTS FROM DANIDA

This appendix shall list the accounts statements the project will receive from Danida:

<u>Report number</u>	<u>Short description of content</u>
DW no. xxxxx	

Appendix 8: HOLDERS OF THE PROJECT ACCOUNTS MANUAL

Manual		Latest
<u>Number</u>	<u>Name/position of holder</u>	<u>Update</u>

Appendix 9: List of signatories

The following persons are entitled to approve expenditures/sign cheques/ pay expenditures cash for the project:

Name	Designation	Specimen signature	Initials
		_____	_____
		_____	_____

Date,

Project Coordinator

This appendix shall thus contain a lists of persons authorized to approve expenditures, sign cheques, pay cash and collect cash from the bank.

Appendix 10: Audit Agreement

A copy of the agreement with the external auditor shall be included in the manual imay be based on the following:

Appendix 11: BRIEF COMPUTER MANUAL

This appendix shall contain a brief manual, describing the use of the computerised accounting system (e.g. NAVISION).

The manual should deal with such aspects as:

Starting up the system

Opening accounts

Data entry

Printing reports

Making queries

Closing down the system

Security, including back up

Appendix 12: Computer service and support

The following should be contacted if computer related service or support is required:

Computer Hardware:

Company:

Contact person(s):

Address:

Phone:

Fax:

UPS:

Company:

Contact person(s):

Address:

Phone:

Fax:

Software:

Company:

Contact person(s):

Address:

Phone:

Fax: