

**DesPro**

Swiss-Ukrainian Decentralization Support Project, Ukraine

Швейцарсько-український Проект з підтримки децентралізації в Україні

# **Financial & Administrative Procedures**

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## **1. INTRODUCTION**

### **1.1. SCOPE**

DesPro (Swiss-Ukrainian Decentralization Support Project) through Skat's project implementing unit (DesPro- Skat PIU) in Ukraine, creates an efficient project accounting system to appropriately render project accounts and reporting to DesPro - Skat HQ (Headquarters) in Switzerland and to successfully realize the project in Ukraine.

This manual is designed to provide DesPro with procedures and guidance required to manage financial and administrative activities in compliance with the contract between Skat HQ and SDC (Swiss Agency for Development and Cooperation). It also complies with DesPro's legal status and Ukrainian legislation. This manual meets the laws, regulations and accounting requirements of Ukraine. DesPro - Skat PIU as an Ukrainian entity has to fully identify, understand and comply with all such obligations and with Skat HQ / SDC requirements and principles.

In cases where DesPro - Skat employees feel that they are unable to comply with these obligations, they must immediately contact DesPro - Skat HQ for advice and consultation.

In order to maintain good financial practices and to ensure consistency in accounting and reporting, the project accounting system has to comply with the policies and procedures presented in this manual. The project accounting is based on the principles of internal control, transparency and accuracy.

### **1.2. REVIEW AND REVISION**

As the project evolves, new requirements might be necessary, or policies and local laws need to be adapted. DesPro - Skat PIU in consultation with DesPro-Skat HQ will introduce such changes or additions.

### **1.3. ROLES & RESPONSIBILITIES**

The Senior Project Coordinator (SPC) of DesPro - Skat PIU, under the direct supervision of the Project Director of DesPro - Skat HQ has the overall responsibility for the administrative and financial management of the project. In this regard the Senior Project Coordinator is specifically charged with:

- ensuring compliance with DesPro financial and administrative procedures,
- budget management and compliance with all related donor (SDC) agreement terms and conditions;
- the recruiting and training of a specified number of competent staff to effectively and efficiently manage the project's financial activities;
- complying with Ukrainian laws and regulations; and
- signing contracts/agreements for services provision, procurement of works and goods, necessary for the implementation of the project.

The DesPro - Skat PIU Finance Officer is responsible for all financial operations, proper accounting and office administration. The Senior Project Coordinator supervises and controls project accounting and reporting to DesPro - Skat HQ. The Senior Project Coordinator is directly accountable to the Project Director of DesPro - Skat HQ.

## **2. START UP**

### **2.1. REGISTRATION & ACCREDITATION**

DesPro - Skat PIU is registered in Ukraine with the Ministry of Economy according to local legal requirements for programs of Technical Assistance in Ukraine. All the registration and accreditation documents are kept in DesPro - Skat PIU office. DesPro has its own stamp.

### **2.2. BANK ACCOUNTS**

DesPro maintains an account at OTP Bank Ukraine. It is a multi-currencies bank account namely for CHF (Swiss Franc), USD (US Dollar) and UAH (local currency Hryvnia).

### 2.3. BANK SIGNATORIES

Bank Signatory Card includes two signatories. The Senior Project Coordinator has the first signatory right. The Finance Officer has the second signatory right. The Senior Project Coordinator can designate a staff member to cover the times he is out of the office. Then the signatory card should include the signature of the designated persons. All withdrawals and wire transfer require two signatures, one of each authorized person.

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## 3. BUDGET

### 3.1. GENERAL

According to General Conditions for Mandate Agreements with Fund Management of SDC the budget is to be laid down according to the agreement pursuant to Annex 2, plus of the Agreement. It includes three parts:

- The budget for service (payment for services of DesPro - Skat HQ). It includes all the services of DesPro - Skat HQ which are required for the execution of the project;
- The budget for the fiduciary funds (the funds made available to DesPro-Skat Headquarters by SDC on a fiduciary basis) for the implementation of the project. The budget is presented in Swiss francs (CHF);
- Backstopping is covered through a separate SDC budget.

### 3.2. BUDGET FOR FIDUCIARY FUNDS

The budget for Fiduciary Funds of the DesPro was approved in the contract between Skat HQ and SDC. The budget for Fiduciary Funds includes two parts:

1. Project costs:
  - Remunerations of locals;
  - Direct costs local/regional;
2. Other fiduciary funds (program activity budget).

The annual project budget in line with the Plan of Operations must be approved by the Project Director.

DesPro is a multi-year project and the budget has been prepared for the life-time of the project and, for each project year (annual basis).

No budget heading may be exceeded without prior approval by the Project Director.

### 3.3. DESPRO STANDARD BUDGET CATEGORIES

#### Remuneration of locals

- Local Project Staff
- Local/Regional Consultants

#### Direct Costs local/regional

- Travelling costs
- Local Infrastructure
- Purchase of equipment
- Third parties

#### Other Fiduciary Funds

- Output 1 -3

**Remuneration of locals** budget chapter indicates anticipated payments in the form of salary for local project staff. Local/regional consultants.

**Direct costs local/regional** chapter indicates all DesPro office expenditures such as travelling, local infrastructure, equipment and annual external audit.

*All costs related to travel*—for employees who incur costs in working away from the usual “workplace”. This category covers all travel related costs; everything from airfare, train, lodging, meal costs, bus fares.

*Local Infrastructure* provides all office operation needs. This chapter includes premises rent, office running costs, office material, office equipment and vehicle running costs.

Premises rent covers office rent fees, can include office repair expenditures

(materials, services).

Office running costs covers office utilities (electricity consumption), telecommunication (internet, office phone, cell phone cards (within the limit of CHF 200.00 per month, for better control over the mobile phone use the project office phones with detailed list of calls made can be used), office cleaning service, bank service fees, publications.

Office material means office supplies. Most commodities purchased will be charged to "Supplies". Supplies will include such items as:

- stationary (e.g., pens, pencils, copy machine paper etc.);
- office expenses like tea, coffee etc., any informative publications on administrative issues etc.;
- equipment supplies (e.g., printer cartridges etc., consumptions like accumulators, batteries).

Office equipment will cover purchasing of furniture, equipment, software, equipment maintenance service fee.

Vehicle running costs includes mileage expenses (in case of care rent), fuel, and maintenance, and in addition taxi expenses.

*Purchase of equipment* means purchase of project vehicle, all expenses connected with purchasing, registration and insurance procedures.

*Third party* considers the lump sum for external annual local project audit.

**Other Fiduciary Funds** budget chapter covers three main project tasks being Output 1, Output 2 and Output 3. It means that all DesPro program activities are covered under these headings.

**Output 1** centers on improving the communities' ability to manage their services more effectively and efficiently.

**Output 2** seeks to improve the capacities and skills of the local government system at the village, municipal, rayon and oblast levels within the framework of the present and emerging decentralization process.

**Output 3** concentrates on the interaction of decentralization efforts at the national level.

### 3.4. BUDGETING SCHEDULE

The project budget according to the Agreement is structured on an annual basis.

DesPro - Skat PIU prepares budgets on a monthly basis for internal cash flow purposes.

Each month, the Senior Project Coordinator together with the Decentralization Specialist of DesPro - Skat PIU will review their budgets to identify any deviations, request budget revisions, etc. , and will report to the Project Director, if necessary.

## 4. PROCUREMENT POLICY & PROCEDURES

### 4.1. STANDARD PROCUREMENT POLICY

DesPro - Skat PIU follows the below mentioned limits when determining the appropriate bidding procedures:

For purchases:

Procurement Value	Bidding Process
Up to CHF 200.00	No formal process; use knowledge of local prices and availability.
Start from CHF 200.00	Formal bids or internet market bids required from three vendors for equipment

For services provision:

Procurement Value	Bidding Process
Up to CHF 1,000.00	No formal process; use knowledge of local prices and availability.

Start from CHF 1,000.00	Formal bids required from three vendors for services
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DesPro - Skat PIU will award procurement contracts to the bidder who is most responsive to the requirements and is most advantageous to DesPro considering total value for money i.e. reflecting price, quality, delivery times, service, and other directly related factors.

#### **4.2. CONFLICT OF INTEREST**

DesPro - Skat PIU staff must understand and be aware of the potential for real or perceived conflict of interest or unethical behavior.

Employees, officers, or agents of DesPro - Skat PIU shall not participate in the selection, award or administration of a contract or sub- contracts if a real or perceived conflict of interest would be involved. Such a conflict would arise when employees, officers, or agents or any member of their immediate family (including domestic partners) or a firm which employs or is about to employ any of the parties indicated herein, has a significant financial or other interest in the organization or individual selected for an award.

DesPro - Skat PIU employees with designated purchasing or contracting authority should understand and observe the ethical considerations detailed below:

- give first consideration to the best interests, objectives and policies of DesPro;
- do not foster the suspicion of any conflict between professional duty and personal interest;
- decline from receiving personal gifts or gratuities from current or potential suppliers;
- conduct business with potential and current suppliers in an atmosphere of good faith, devoid of intentional misrepresentation.

### 4.3. PROCUREMENT PROCEDURES

<b>Step/Activity</b>	<b>Responsibility</b>	<b>Supporting Documentation</b>
Request for goods/services for purchases	DesPro - Skat PIU Staff Member	
Identifies and specifies the goods/services to be procured & the expected amount/value	SPC/ Finance Officer	
Determination of bidding requirements	Finance Officer or designated person	
Obtain bids as required	Finance Officer	
Selection of Supplier/Contractor	Senior Project Coordinator	Bid Analysis Worksheet
Receive goods or services	Finance Officer or designated person	Proof of delivery - for goods; Act of acceptance
Make payment	Finance Officer	Contract and/or vendor receipt; Proof of delivery or act of acceptance; Bank Payment order or Cash Receipt

#### **4.4. CONSULTANT/CONTRACTUAL SERVICES**

Consultant/contractual services can be procured for:

- Specific projects/services – short-term, for example a single three-day workshop;
- Specific projects/services – long-term, for example weekly building maintenance, trainer for monthly workshops;
- Framework Services – long-term, where the nature of the service is known but the exact details of work are not and will be specified in specific work orders as utilized; for example photocopying services.

For consultant/contractual services based on approved (by the Project Director) Terms of Reference a Consultant Agreement must be signed. The signed act of a performed job is the proof of acceptance of executed services. The consultant can receive an advance according to the contract. After the completion of services provision and signing of Act of performed job final payment can be made.

#### **4.5. BID ANALYSIS**

Selection of a vendor for equipment requires consideration of a number of factors. When evaluating quotations, consideration should be given, but not necessarily limited to some or all of the following:

- A. Conformity to specifications and quality
- B. Price
- C. Bidder's previous record of performance and service
- D. Ability of bidder to offer service support (i.e., training, maintenance and repairs)
- E. Delivery Schedule
- F. Product Life Expectancy
- G. Warranty
- H. Terms of Payment

The final selection should be made by the Senior Project Coordinator after written approval by the Project Director.

In order to evaluate bids more reliably a list of indicative consultancy rates for different categories of consultancy services will be maintained as part of these financial and administrative procedures (chapter 8.1).

#### **4.6. PROOF OF RECEIPT**

Upon receiving of goods or services, de facto because they have been paid for, formal confirmation of receipt is compulsory for control and audit purposes and for verification of quantities:

##### **a. supplies, material, other goods**

- requires a detailed list of the items and quantities received, location to which the goods were delivered and signature of the person receiving the goods;
- if goods are received by DesPro - Skat PIU and then transferred or disbursed to a partner or beneficiary proof of delivery to the final destination will also be required.

##### **b. services**

- delivery of services must be formally described and documented in terms Terms of References prepared a DesPro - Skat PIU employee and written approved by the Project Director;
- the contract will detail the documentation required from the consultant as proof of service delivery;
- proof of services may include but is not limited some or all of; consultants report, workshop agenda and attendance list, inspection report for construction type activities, transport log for delivery/transport services.

#### **4.7. PROCUREMENT FILE**

The Finance Officer is responsible for maintaining a procurement file that will contain all documents related to the procurement transaction including:

- All bids received;
- Bid analysis worksheet;
- Contract/vendor invoice;
- Bio-data form for consultants;
- Proof of Receipt of goods/services;

Procurement files need to be retained for the Life of Project, along with the financial files, and then handed over to Skat HQ after completion of the Project.

## 5. PROJECT ACCOUNTING

### 5.1. DEFINITIONS & OBJECTIVES

The project accounting consists of all measures used by an organization to safeguard its resources and to ensure accuracy, efficiency and reliability in accounting and operating information.

An effective control system ensures that procedures are in place that meet the following objectives:

Petty cash in the office, property (fixed assets – furniture and equipment) and other assets (supplies, manuals, materials, etc.) acquired for DesPro - Skat PIU purposes are adequately safeguarded;  
 all financial transactions are appropriately documented and approved by authorized staff;  
 funds are expended in accordance with Agreement requirements and limits; and  
 financial reporting is accurate and timely and conforms to these procedures.

It is important to emphasize that internal control is designed to prevent or identify *inadvertent errors* as much as they are intended to prevent the *deliberate theft or misuse* of funds.

Project accounting serves as an instrument to run the project. The degree of detailed information and the structure of the accounting system deemed necessary are a matter to be decided by the project management.

Completeness in accounting means all income and expenditure of the project are recorded. The funds should be used efficiently and effectively and in line with the objectives of the project, that accounts are properly kept and in conformity with these Financial & Administrative Procedures and the contract between Skat HQ and SDC.

### 5.2 PROJECT ACCOUNTING SCHEDULE

The financial year starts from January 1<sup>st</sup> till December 31<sup>th</sup> of the same year. Financial budgets, internal reporting and statutory annual audits are scheduled based on the financial year.

In order to maintain consistency and compatibility the accounting system will be utilized for maintaining accounting records and for using standard charts of accounts and classes (under development).

The functional and reporting currencies are the CHF (Swiss Francs) and UAH (Ukrainian Hryvnya). All financial transactions are converted by accounting computer system into CHF.

The computer software DEZA Fibu is used for registration and reporting.

### 5.3. EXCHANGE RATES

For the different actions there are different foreign exchange rates. For the Accounting and Translation rate is chosen the rate of National Bank of Ukraine. In case of using another Bank rate to be sure always use the same source of information (same Bank).

Transaction	Rate	Explanation
Exchange-transactions like:  any money exchange;	Exchange Rate	Rate obtained from the Bank for the operation (interbank exchange rate)
All other movements as well as non monetary transactions, e.g.:  <ul style="list-style-type: none"> <li>• Procurement in currency other than CHF;</li> <li>• Processing the statement of a Partner (operating expenses in other currency than CHF: Project activities/ Advances)</li> </ul>	Accounting Rate	End of the previous month rate of the National Bank of Ukraine

Year-End Financial Statement: translation of the Balance Sheet (e.g. Local Bank Account, Debtors) and for the opening-Balance	Translation Rate	Official end of the year rate of the National Bank of Ukraine
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#### **5.4. FINANCIAL REPORTING**

DesPro - Skat PIU maintains project accounting on a monthly basis and submits financial reports quarterly to Skat HQ as per a standard reporting package not later than the 15<sup>th</sup> by e-mail and 20<sup>th</sup> by express post of the next month.

#### **5.5. KEY AREAS & CONSIDERATIONS**

It is very important to recognize that internal controls are not limited to issues of accounting and accounting paperwork and that their implementation requires the involvement and efforts of staff within all functions across the organization. Effective control systems need to address five key areas:

1. Personnel
2. Division of Duties
3. Authority Levels
4. Document Standards

##### **5.5.1. PERSONNEL**

- Hiring procedures need to be focused on ensuring that staff is hired on an unbiased basis so that candidates are selected based on qualifications and experience and conflicts of interest are avoided.
- Employees can only fulfill the requirements if these requirements are clearly communicated. Each employee must have an up-to-date job description.

##### **5.5.2. DIVISION OF DUTIES**

A fundamental principle of internal control is that no one person can control all aspects of a transaction alone.

Within the DesPro - Skat PIU, the responsibility for supervision and authorization of a transaction must be separated from accounting and executing.

Some examples:

The Finance Officer who is maintaining all accounting records, can not be allowed to approve disbursements or be a sole signatory on cash or bank transactions.

Personnel who selects vendors to bid on procurement cannot be authorized to select the winning vendor.

The Senior Project Coordinator verifies petty cash in witness of Finance Officer.

### **5.5.3. AUTHORITY LEVEL**

The Internal control system can only function effectively if all employees know who within the organization has the responsibility and authority to initiate or approve expenditures or the use of other assets.

Employees assigned the authority to approve and/or authorize commitments or expenditures must:

- be given written notification of their authority levels and limits to be kept in employee's files;
- be fully conversant with the required procedures and documentation before approval can be given to commitments or expenditures.

DesPro - Skat PIU authority levels are incorporated into organizational chart approved by the Project Director.

Authority limits represent the formal delegation of authority to sign on behalf of DesPro - Skat PIU.

The Senior Project Coordinator is authorized to undertake all financial transactions necessary for the Project Implementation up to the amount **CHF 10,000.00 per transaction**. After approval by the Project Director he also signs contracts/agreements for services provision, procurement of works and goods, necessary for the implementation of the project and other commitments fixed in the Power of Attorney.

Commitments include such issues as signing contracts or purchase orders and any verbal commitments made by a DesPro - Skat PIU staff member to an external organization or person.

## Authorization Limits & Signatory

Name/Position	Maximum Commitment	Maximum Payment	Restrictions	Sample Signature
Vadym Pavlenko, Senior Project Coordinator, DesPro - Skat PIU	CHF 10,000	CHF10,000	None	

- Exceeding transaction of 10,000 CHF, the Senior Project Coordinator before authorizing should receive the clearance for payment from DesPro - Skat HQ. It can be processed by e-mail. Such procedure is needed to maintain the internal control.
- Changes to the list must be formally documented in this document with a description of the change of authority.

The person authorizing a commitment is responsible for ensuring that the transaction:

- Of the purchase is in line with the approved budget and the Plan of Operations;
- concerning goods/services are technically appropriate, meet the needs and are of reasonable costs, in line with the approved budget.

To avoid an error in payment, the Senior Project Coordinator authorizing the payment is responsible for ensuring the required minimum documentation (time and attendance, contracts, vendor invoices, tender documents) is complete and authorized.

Due to the fact that the Finance Officer has access to, and maintains the accounting system, he/ she is not authorized to approve payment documents. The Finance Officer has the responsibility to review and verify all payment documents for completeness and compliance with the financial procedures and is entitled to return any authorized/approved payment if it fails to meet the requirements.

The Bank signatory card is established and kept separately from bank documents.

#### **5.5.4. DOCUMENT STANDARDS**

It is essential that financial activities and transactions are clearly and appropriately documented and recorded.

DesPro - Skat PIU is responsible for accounting and management for the use of funds and other assets. This accountability involves proving that SDC funds were spent as budgeted and within the terms of the project contract. Program reports and data provide the necessary information and evidence. The financial/accounting records have to provide evidence of the correctness of how, when, and by whom the funds have been spent.

Documentation of accounting entries may be considered complete if the following condition is met:

- complete and well organized documentation;
- all financial documents are with appropriate authorizations and account numbers;
- all transactions are completely described and supported.

DesPro- Skat PIU keeps all original accounting records and all originals for the life of the project, and hands them over to Skat HQ after completion of the project. Documents must be safely stored to prevent loss or damage. An appropriate filing system for historical records needs to be in place to ensure the required documents can be located when required.

#### **5.6. POLICIES & PROCEDURES**

Standard forms and procedures assist in implementing an effective control system by promoting transparency, standardizing the collection of information, emphasizing the required approvals, and supporting standard filing systems.

The following sections provide information on the standard types of forms and procedures for regulation of DesPro activity.

##### **5.6.1. DISBURSEMENT**

Disbursement of transactions have the greatest variety of legitimate supporting documentation as they cover the widest range of financial activities. However, the following rules are applicable to all and must be part of the disbursement documentation:

- Payment Voucher signed by the Senior Project Coordinator to approve payments; all transaction either by wire transfer or in cash should be registered in the Payment Voucher on a daily basis;
- The Finance Officer's signature receiving cash as proof that he/she must support all disbursement transactions paid by cash.

- Payment Order and Bank Statement documents (generated by Bank-Client system) must support all bank transfers showing to whom the money was sent.
- Cash Receipt Form is used for petty cash operational payments.

Once the disbursement has been made the supporting documents will be marked "PAID".

### **5.6.2. EMPLOYEES & PAYROLL**

DesPro- Skat PIU maintains the personal documents of the national project staff. Employees' files for each employee containing copies of all personnel and payroll documents must be maintained. A decision by the Senior Project Coordinator related to salaries must be approved by the Project Director. In addition, all positions, including newly created ones, must have current job descriptions that describe the responsibilities and requirements of the position.

In order to avoid confusion or misunderstanding among staff members about salaries, benefits, time-off, etc. it is essential that all payroll related activities are clearly and consistently documented. The use of standard documentation is also the key to good internal control over the payroll process. The following table shows the required types of forms.

#### **Payroll Forms**

<b>Type of Forms</b>	<b>Use</b>
Employment Agreement/Contract	Documents starting date, position, salary and benefits;  One Contract is agreed between the employee and DesPro - Skat PIU, authorized by the Project Director in written form
Employment Timesheets	Monthly records hours worked and absences
Employment Act of Performed Services	Monthly signed job performance form
Employee Vacation	Request and approval of vacation

	time
<i>Employment Action/Changes</i>	Records changes in salary, benefits or other pay related actions

According to Ukrainian Laws, DesPro- Skat PIU follows the list of state approved holidays throughout the year:

Ukrainian National Holidays		
New Year's Day	January 1	1
Christmas Day	January 7	1
International Women's Day	March 8	1
International Workers' Solidarity Day	May 1 & 2	2
Victory Day	May 9	1
Constitution Day	June 28	1
Independence Day	August 24	1
Easter Sunday	April-May	1
Trinity (Whitsunday) Sunday	June-July	1
TOTAL		10

What's about birthdays? Vadym mentioned they were holidays (it seems not in SDC)

Value of one working day of employee is defined according to the following calculation of :

- the number of actually working days of month;
- monthly salary divided on number of actually working days of month

### 5.6.3. PROCUREMENT

Procurement files provide evidence of the process undertaken to ensure fair and competitive procurement.

A complete procurement file must contain all support financial documents and bid analysis (required starting from 200.00 CHF for equipment purchasing one transaction and from 1,000.00 CHF for services provision).

#### *Typical Procurement Forms*

<i>Type of Forms</i>	<i>Use</i>
Contract and/or invoice	Detailed purchase agreement, terms and conditions
Act of Acceptance of Goods/Services Completed (Vendor format)	Provides proof of receipt of goods, or delivery of service, in accordance with the Vendor receipt/Contract
Bid Analysis Worksheet	Described all tender proposals and the reason of selected winner vendor

### 5.6.4. EQUIPMENT AND MATERIAL

In general, DesPro - Skat PIU staff member have to follow the following rules:

- All equipment and material should be used exclusively for the project needs;
- Equipment purchase value starting from CHF 30.00 and time of service of more than one year should be included in the inventory (for example phone unit, lamp, table, computer; but not cartridge etc.);
- The Finance Officer is assigned to keep the inventory log;
- The inventory log contains the inventory number, a short account of object, location or person responsible in the case of vehicles, date of purchased;
- Completeness and correctness of the inventory is signed by the Senior Project Coordinator and will be checked periodically by Skat, SDC or external audit;
- If project material is exchanged between DesPro - Skat PIU partners, this must be noted as such in the inventory.
- Decision on any sale of project material is to be made with the agreement of SDC and shall be credited to the account of the project.

### **5.6.5. COMPUTERS TERMS AND DATA**

The protection of computer systems and the data stored on them is overlooked. Adequate security, backups and regular maintenance are essential to maintaining confidentiality and data integrity. Computer systems are supported by an Information Technology Consultant as and when need arises. An effective internal control system will include the following systems and procedures:

- Regular backup plan is followed;
- Inspection of computers including virus protection updates and cleaning.

### **5.6.6. OFFICE VEHICLE**

DesPro- Skat PIU vehicle use has to be documented and authorized. The Office Driver has to maintain the Mileage Vehicle Log on a daily basis. It contains the information on dates, hours, purpose of trip, the name of the travelers, mileage (km) and fuel consumption. Private use of the project vehicle is strictly forbidden.

## **6. PAYMENT PROCEDURES**

### **6.1. MAIN POINTS**

DesPro - Skat PIU has to follow the following rules related to cash management and control as detailed below.

1. **Cash Limits** – the maximum amount of cash to be held in the office at anytime is CHF 1,500.00 (According to Ukrainian law, the office can establish increases at specific dates/times to accommodate regular payments such as payroll.).
2. **Payment Methods** – in payments procedures DesPro - Skat PIU uses petty cash and banking system. The preferable method of payment is bank transfer.
3. **Advance Payments** – maximum advance amount/percentage allowed to/for:
  - External vendors is to be minimized but will vary from contract to contract;
  - Staff travel (100% of per diem rate);
  - Project consultants and expert have no travel advance; they are remunerated and reimbursed based on signed consultant agreement.

## **6.2. ADVANCES**

The risk to DesPro - Skat PIU is higher on advance payment, than on payment after delivery, as DesPro - Skat PIU has yet to receive the goods or services. An advance occurs when either:

1. money is advanced to an DesPro- Skat PIU employees to cover upcoming costs (i.e., travel advance or interim cash advance); or
2. a payment is made to an external party before the related goods or contractual services are received and/or completed as a pre-payment.

No employee, contractor or supplier should have more than one outstanding advance at any time. DesPro - Skat PIU does not make personal loans to staff; funds can only be advanced to staff for project business related purposes.

### **6.2.1. EMPLOYEE TRAVEL AND PROGRAM ADVANCES**

Travel advances can only be issued for business travel. A completed **Travel Advance Form** included the purpose, length, destination and costs to be covered and authorized by the Senior Project Coordinator. Based on the project contract and approved budget, a per diem flat rate is given to local DesPro - Skat PIU employees with the amount of CHF 80.00. This amount covers meals and accommodation. This can be paid as travel advance.

**100% of per diem will be paid only if the trip exceeds 8 hours, if less then 8 hours – 50 % of per diem will be paid.**

In other trips in the framework of the project travel expenses will be reimbursed under SDC rules.

DesPro can cover travelling expenses by plane just economy class ticket.

Finance Officer should properly record the advances in accounting computer system. **Employees are required to clear and liquidate travel advances within 15 calendar days of return from the trip using Travel Expense Report or Program Expense Report.** These reports should be accompanied by original receipts for travel expenses such as flight, train tickets, bus, taxi, etc..

Program advances may be provided to employees to pay for approved purchases or services when a cash payment is required and the payment cannot be made directly from the DesPro office. The use of program advances is not encouraged although may be unavoidable.

### **6.2.2. INTERIM PETTY CASH ADVANCE**

Interim Petty Cash advances up to CHF 100.00 can be given to authorized staff for small purchased (i.e. stationary, coffee, mineral water, copying services, etc) and will be reconciled within 24 hours.

### **6.2.3. PROCUREMENT/SERVICE CONTRACT ADVANCES**

DesPro –Skat PIU prefers not to issue advance payments, however this is sometimes unavoidable due to supplier needs or the nature of the contract/agreement. Advances for goods or services must:

1. be specified in a signed contract;
2. must not exceed CHF 10,000 in total advances to any single supplier or vendor.

#### **6.2.4. ADVANCES TO SUB-CONTRACTORS**

**The timing and tranche amounts of payments to sub-contractors is to be detailed in the subcontractor's contract.** As payments are generally made before the subgrantee incurs any expenses these payments are advances. Detailed accounting and reporting requirements are also detailed in the subgrant agreement. Special attention must be given to ensuring that the required reports and accounting for funds are received and reconciled to the original advance.

#### **6.3. FOREIGN CURRENCY**

Project agreement and budget are generated in CHF (Swiss Francs). DesPro-Skat PIU needs to use UAH (Ukrainian Hryvnia) that is required to make all payments in local currency under local laws. To meet all project needs at any situation DesPro- Skat PIU is served by a multiply bank account (CHF, USD, UAH).

Exchanges of foreign currencies to local currency should be done through bank or official money exchange offices. It is essential that DesPro- Skat PIU office obtains and keeps all receipts or supporting transaction records for currency conversions to support the exchange rates used to charge expenditures.

#### **6.4. AUTHORITY LEVELS**

The Senior Project Coordinator must approve a request for payment before it can be processed and disbursed. For internal control reasons finance staff cannot authorize payments.

Staff must be trained to understand the requirements and responsibilities inherent in approving payment requests. When the Senior Project Coordinator approves a payment request it means that the payment should be made, i.e., the required documentation is complete and attached, and the payment is in accordance with the contract/agreement or receipt. The Finance Officer always has to check the correctness of the payment requests.

#### **6.5. METHODS OF PAYMENT/CASH**

The DesPro- Skat PIU accounting system comprises petty cash and bank transfer payments.

Standard procedures of handling cash are designed to minimize the major risks associated with cash such as:

- theft or loss of cash;
- disbursement of cash without proper documentation or authorization;
- incorrect charging of receipts/disbursements, (incorrect grants or accounts); and
- disbursements that do not comply with agreement regulations.

#### **6.5.1. DESIGNATED CASHIER**

Usually when dealing in cash must be designated a separate person as “cashier.” As to the Project Agreement in DesPro Finance Officer along with all accounting functions is also assigned as cashier. The cashier is responsible for the control over and disbursement of all cash in the office. A cashier must be fully trained on the minimum documentation required for payments and the authority levels. During absences or vacation an alternative qualified employee must be designated as acting cashier.

The cashier is required to keep an up-to-date cashbook (electronic or written), showing all payments made and the current cash balance.

#### **6.5.2. PHYSICAL SECURITY OF CASH**

DesPro - Skat PIU has a safe to store the cash securely in the office. The cashier retains safe combination at all times.

#### **6.5.3. MOVEMENT OF CASH**

Management needs to be particularly aware of any security risks when moving cash from the bank to the office. It is important to recognize that people carrying cash can be subject to violence if a robbery is attempted. The following precautions are recommended:

1. do not transport cash using public transport; DesPro- Skat PIU vehicle; and
2. whenever possible, and for any large amounts, have two employees travel with the cash.

#### **6.5.4. DOCUMENTATION FOR CASH PAYMENTS**

All cash payments require the authorized documents. Funds can only be released to the named person who signs Cash Receipt form upon acceptance of cash.

Cash Payments along with wire transfers are registered in Payment Voucher.

### **6.5.5. PHYSICAL VERIFICATION**

Formal verification of cash balances should be performed, and documented, as follows:

- Cash is counted weekly by the cashier and balanced to cashbook balance. For petty cash with a big turnover a daily verification may be indicated. Any differences in petty cash must be reported to the Senior Project Coordinator who is responsible for appropriate preventive measures;
- Cash is counted by the Senior Project Coordinator monthly and balanced to the cashbook balance. A formal signed statement of the cash balance is prepared and submitted to Skat HQ with quarterly financial report.
- Unexpected cash control can be carried out by Skat HQ.

## **6.6. PROCEDURES RELATED TO BANK ACCOUNTS**

### **6.6.1. BANK FILE**

The Finance Officer maintains a documentation file for bank account. The file should include the originals of all bank agreements and account related correspondence, excluding regular transactions, with the bank. (Transaction information and bank statements should be maintained separately in the accounting files.)

The following standard information should be found in the file:

- Bank Agreement;
- Date account was opened;
- Fee Schedule (original and updates);
- All correspondence related to changes in signatories; and
- For closed accounts, date closed and a copy of the bank confirmation of closing.

### **6.6.2. BANK TRANSFERS WITHDRAWALS**

When using bank transfers/withdrawal (i.e., bank order, cheque):

1. Bank transfers are to be made by DesPro - Skat PIU office through the electronic Bank-Client System;
2. For cash withdrawals the pre-numbered Cheque Book issued by the bank is used. This Cheque Book is kept in the safe and controlled by the Finance Officer. The Finance Officer presents the cheque for authorization and signing by the Senior Project Coordinator prior to presenting it to the bank for release of funds;

3. The Senior Project Coordinator should perform a monthly review of the cheques that have been used including voided cheques to identify any cheques not legitimately prepared.

#### **6.6.3. DOCUMENTATION FOR BANK PAYMENTS**

All bank payments are accompanied with supporting documents that comply with DesPro- Skat PIU policies and approval limits (obligatory payment order (bank form). Bank payments are all registered in approved Payment Voucher.

When transferring funds special attention must be paid to ensuring the recipient account bears the same name as the vendor who supplied the goods or services. DesPro- Skat PIU avoids the third-party accounts for remitting payments.

#### **6.6.4. BANK STATEMENTS**

DesPro - Skat PIU obtains bank statements at least on a monthly basis. Statements need to cover the first to the last day of the month. A copy of the bank statements are to be submitted to Skat HQ as a part of the quarterly reporting package.

#### **6.7. FILING SYSTEMS**

Documentation must be filed in a *secure location* under the control of the Finance Officer. Financial documentation must be kept for the life of the project. When DesPro- Skat PIU moves old documentation into storage, special attention should be paid to ensuring the security and physical protection (from water, accidental disposal, etc.) of the documents.

Documentation is to be filed in such a way as to make it easily locatable based on the transaction number and/or the transaction data recorded.

The documentation file is structured as:

- originals are separated by month, within each month filed by payment voucher number chronologically;
- Long term payment contracts and copy of one time contract are filed in separate vendor folders. Bank Statements & Cancelled Cheques:
- Bank Statements are filed by month.
- Cancelled Cheques are filed with the Cheque Book.

## 6.8. SUMMARY OF PAYMENT PROCEDURES REQUIREMENTS

Transaction Type	Required Forms & Supporting Documents Attached	Supporting Documents Verified as in File (not attached)
Petty Cash Payments	<ul style="list-style-type: none"> <li>• Cash Receipt Form</li> <li>• or Cash Register Receipt</li> <li>• documents supporting the expenses occurred (eg. vehicle log, office phone bill, fiscal cheque etc.)</li> </ul>	Contract/Agreement
Payroll	<ul style="list-style-type: none"> <li>• Timesheet</li> <li>• Act of performed job</li> <li>• Wire Transfer Order/Cash Receipt Form</li> </ul>	<ul style="list-style-type: none"> <li>• Employment Agreement/Contracts</li> <li>• Approved change forms</li> </ul>
Travel Advance	<ul style="list-style-type: none"> <li>• Request for Travel Advance Form</li> <li>• Cash Receipt Form/ or wire transfer order</li> </ul>	
Travel Reimbursement	<ul style="list-style-type: none"> <li>• Travel Expense Report</li> <li>• Other travel expenditures receipts for reimbursement</li> </ul>	<ul style="list-style-type: none"> <li>• Request for Travel Advance Form</li> <li>• Cash Receipt Form</li> </ul>
Project Advance Payment	<ul style="list-style-type: none"> <li>• Request for Project Advance Payment</li> <li>• Cash Receipt Form</li> </ul>	Pre-approved event budget
Program Advance Reconciliation	<ul style="list-style-type: none"> <li>• Program Expense Report</li> <li>• Original documents supporting the expenses occurred</li> <li>• Cash Receipt Form</li> </ul>	<ul style="list-style-type: none"> <li>• Request for Program Advance</li> <li>• Cash Receipt Form (in case of reimbursement)</li> <li>• Pre-approved event budget</li> </ul>

Mileage Expenses Reimbursement	<ul style="list-style-type: none"> <li>• Mileage Log and Fuel Consumption</li> <li>• Invoice</li> <li>• Cash Receipt Form</li> </ul>	<ul style="list-style-type: none"> <li>• Contract</li> </ul>
Procurement of Goods/ Services	<ul style="list-style-type: none"> <li>• Procurement Contract or/and Vendor Invoice</li> <li>• Wire Transfer Order/Cash receipt</li> <li>• Proof of receipt of goods or service</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement Contract</li> <li>• Tender Proposals (start from amount of CHF 200.00 for equipment and from 1,000.00 for services provision)</li> </ul>
Individual Consultant/ Service Agencies	<ul style="list-style-type: none"> <li>• Consultant Agreement</li> <li>• Cash Receipt Form/ Wire Transfer Order</li> <li>• Act of Services Performed (after completion of the Contract)</li> </ul>	<ul style="list-style-type: none"> <li>• Consultant Agreement</li> </ul>

No payments are done without having received invoices/contracts from vendors, sub-contractors and other service providers.

## 7. AUDIT

### 7.1. OVERVIEW

Internal audits are those undertaken by DesPro- Skat PIU and DesPro- Skat HQ staff; external audits are undertaken by external licensed public accountants, staff of donor agencies. DesPro sub-contractors are audited by DesPro- Skat PIU financial staff.

### 7.2. ANNUAL AUDIT

According to the project agreement DesPro - Skat PIU must and will be audited annually by an external local audit company.

In cooperation with Skat - HQ and having obtained the approval of SDC, DesPro PIU mandates a local audit company to carry out the annual audit of PIU's financial statements. The local auditors' report is submitted to Skat - HQ together with the annual financial statement and is integrated into the accounts of the headquarters.

Any remarks and recommendations made by the external auditors are disclosed to the Skat -HQ and are followed up in the next periods.

### 7.3. INTERNAL REVIEWS & AUDIT

DesPro - Skat PIU submits quarterly financial reports to Skat HQ for performing internal review and audit within the project.

The Senior Project Coordinator regularly undertakes internal controls of accounting maintenance.

DesPro - Skat PIU indicates an audit of grantee's funds disbursement.

## 8. Annexes

### 8.1 DESPRO CONSULTANTS SERVICE RATES

can not be more then:

<b>Mileage expenses rates</b>	<b>0.90 UAH per 1 Km</b> (A-95 fuel costs UAH 4.5*, fuel consumption is 10 liters for 100 Km, so, 1 Km costs UAH 0.45; vehicle amortization per 1 Km costs the same UAH 0.45; $0,45+0,45=0.90$ )
<b>Translation service</b>	<b>UAH 50 per 2000 characters with spaces</b>
<b>Layer consultant service</b>	<b>UAH 500.00 per day</b>
<b>IT consultant service</b>	<b>UAH 400.00 per day</b>
<b>Office cleaning service</b>	<b>UAH 500.00 per month</b>

*\*price can be changed*

**8.2 LIST OF EXCLUSIVE SERVICES AND PROCUREMENTS**

	Project Driver/Assistant		
	DesPro premises (vendor Samaray)		
	DesPro vehicle		
	Legal adviser (Agreement No 4.1)		
	Designer (TOR 3.1)		

Prior to the purchase of services or procurement without tender amounting to more than CHF 1,000.00 DesPro informs and explains such exclusion to Skat HQ.

Authorised by: \_\_\_\_\_

Project Director

Kyiv, December 2007