



**KARUDECA**

**KARAGWE RURAL DEVELOPMENT AND ENVIRONMENTAL CONSERVATION AGENCY**  
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## **KARUDECA FINANCIAL MANAGEMENT POLICY**

## 1. INTRODUCTION

Karagwe Rural Development and Environmental Conservation Agency (KARUDECA) is a local registered Non-Governmental organization (NGO) working in United Republic of Tanzania. KARUDECA deals with Micro finance, Environmental conservation, Education promotion, Agriculture, Health and women and youth Empowerment. KARUDECA was primarily registered in December 2007 to operate in Karagwe District of Tanzania although in 2006 it was again registered to operate in Tanzania as the whole. We are currently working with 30 institutions including SACCOS, MFIs and groups. We train their management, staff and members so that they can work better and develop the microfinance sector in Karagwe.

Since its functioning, KARUDECA has been funded by several donors including WABIA Network, Engineers without borders Sweden, and SBFIC (Saving banks for international cooperation). All funds provided were focusing to improve the living standards of Karagwe and Tanzania residents.

Thus the donors need to ensure the effectively usage of their funds towards the needs of beneficiaries and this is what this policy declares for the best of all stakeholders and for current and future funding. Policies and procedures documented ensure effective internal controls, clarification of duties and responsibilities for better decision making within the organization.

Benefits achieved from financial policies and procedures

- Ensure accurate record for the financial transactions of the organization.
- Declaration of staff responsibilities, thus staffs are aware of their limits towards fulfilling their roles.
- Act as a framework for organizational decision making
- Provide operation standards for different behavior expected in future
- Ensure management guidance towards organization operations without any intervention
- Ensure assets protection.

## **Areas of Policies and Procedures**

- Segregation of duties

This means each staff performs specific duty as assigned thus help the work done to be reviewed by another staff member. It ensures no staff can initiate, approve and complete the transaction.

- Authorization of expenditure

This is ensured for any expenditure transaction before incurred it should be approved by relevant authority. More than one person should authorize a payment as the following framework below.

Finance officer –is a person who prepares the transaction to be paid then another person with higher position should review the transaction to ensure accuracy of budget, reliable supporting documents and correctness of coding of a given project.

Project coordinator – this person ensure the implementation of a given project such as time covered for its completion, activities to be performed and costs are incurred correctly.

Senior management- this is a person who approve the payment at final level after being advised by authorized persons signed before. The person must be active to ensure no payments are delayed.

- Financial reviews

This means financial reports should be reviewed by management independently to crosscheck transactions occurred in a given period of time.

## **2. ACCOUNTS MAINTANANCE**

This means the basis in which accounts are established and methods applied to maintain them although may vary from place to place.

- Account policies and procedures

Basis of accounts

- a) Historical based concept – the organization should prepare its account basing on historical cost including asset revaluation in-order to reflect the current asset value

- b) Accrual based concept – this means revenues should be recorded when received and expenses should be recognized when incurred. Grants and loan received should be treated as revenue.
- c) Grants and donations – this should be treated separately from operation activities. When expressed in income statement should be recorded with other non- operating revenues and in balance sheet should be recorded as operating capital.
- d) In- kind contribution –this should be recognized and supported by appropriate objective documentation.
- Cash transaction and account management.

Cash transactions on day to day activities should be documented and used with specific procedures as developed and expressed in financial management policy as follows;

### **3. CASH HANDLING**

- Cash transactions

Day to day running activities should be settled with minimum cash transaction to ensure proper control of cash amount. For KARUDECA maximum cash to be used should not exceed 150,000/= and cashier is responsible to control cash amount.

- Withdrawal of cash from bank
  - a) Cash request form is filled by responsible person for handling cash and approved by the head of department.
  - b) KARUDECA has 3 signatories responsible for withdrawing cash from bank.
  - c) Signatures of the person withdrawing cash should be attested before cash is withdrawn.
  - d) Cash receipt should be prepared and accounted for by an accountant without delays.
- Cash payments
  - a) Cash payments will be made only after payment voucher has been prepared.
  - b) The voucher should be signed and approved by project authority before payment is made.
  - c) Payee should sign the voucher for having receiving the payment.
  - d) In case of the absence of the responsible person to approve the other competent person standing- in, may approve on behalf before payment is made.
- Cash verification
  - a) At the end of the month or occasionally cash balance should be physically verified by a competent person.
  - b) Cash account record should be prepared by responsible person

c) In case of any discrepancy arise during physical verification records should be made and reported immediately to the person concerned.

- Controls to be exercised

a) No any third parties should be allowed to access the accountant office and cash should be paid in the front office to ensure security.

b) Cash should be kept by only responsible person assigned.

#### **4. SALARIES AND ADVANCES**

Salaries and advances are paid on the following procedures

a) Appointment letter and contract should be issued to all permanent employees and signed by the head of the organization and employee proving the acceptance of terms and conditions set. The contract should contain initial salary, responsibilities, duties and general terms and conditions.

b) In case of changes in salary, duties, responsibilities and terms and conditions employee should be informed in writings.

c) Employee personal file should be opened for each employee keeping job application letters, appointment letters, and any other corresponding matters between employer and employee.

d) Salaries should be paid at the end of the month through bank account deposit. Salary schedule showing the gross salary, advances, deductions, and net salary paid should be prepared by an accountant, verified by finance officer and approved by the head of the organization according to the payment voucher.

- Advance salary

A request letter should be written by the staff according to the policies and regulation set and submitted to the HR manager however all advances should be approved accordingly with the fund available. Reconciliation should be done every month.

#### **5. BANK ACCOUNT OPERATION**

- Bank account opening

Bank account for project fund should be opened in nationally recognized bank or any other bank authorized by the central bank of the country. Necessary authority should authorize opening of bank account and operation manner however separate project can be opened according to the project or in case of another project commencement. Normal bank slips are used to pay or receive money from the bank.

- Closing of bank account.

This occurs in case the bank account is not used thus its closure should be immediately. Finance office with competent authority should obtain resolution in writing and follow the following actions

- a) Transfer the balance amount from current account to the other bank account leaving only minimum balance in the current bank account.
- b) After receiving resolution should submit it to the bank under a receipt
- c) Confirm transfer of balance and closure of bank account.

## **6.BANK TRANSACTIONS**

- Bank receipts

- a) All incomes should be acknowledged by issuing of an official receipt considering the date of a receipt with that of the deposit to be the same otherwise in case of bank holidays or end bank hours only.
- b) The bank deposit slip should be attached with the receipt voucher accordingly.

- Bank payments

- a) Payment voucher should initially be prepared, verified and approved before payment release.
- b) Payments should be made against reliable claims
- c) All supporting documents should be attached with corresponding payment voucher and filed accordingly.

- Controls to be exercised

- a) All transactions to the bank should be signed by authorized persons only.
- b) Bank reconciliation statement should be done on monthly basis.

- Bank reconciliation statement

This should be done every month to ensure the balance as per cash book comply with the balance as per bank statement. Entries such as bank charges, interest, and outstanding should be considered when reconciling.

## **7. BILLS, INVOICES, RECEIPTS AND VOUCHERS**

- Essential properties of a voucher
  - a) Name of the project – the name of a given project should be marked to identify that the voucher belongs to a particular project.
  - b) Voucher number - each voucher should be numbered and if the voucher is wrongly written should be expressed with the word ‘cancelled’ in front of it to ensure proper payment controls.
  - c) Classifications – proposals clearly specify the line items with their costs thus basing on the nature of expenses verifications should be made to correctly classify expenses according to the line item shown in the proposal.
  - d) Narrations – there should be understandable descriptions in support of classified transactions
  - e) Date of preparation and serial number of the voucher should be clearly described.
  - f) Supporting documents –these are real proofs of transactions on which payment is affected. Classification and amount of expenses written on the voucher should be the one reflected by these documents.
  - g) Amount of an expense – the amount on the voucher should be the one reflected by supporting documents and match with adjustments affected if any such as advance payments.
  - h) Signature – the voucher should finally be signed by the person who prepared it, responsible person for authorizing payment and the person who receive payment.
  
- Supporting documents
  - a) All claims and bills should be original (copies or representing documents are not allowed).
  - b) Responsible person initiating payment should firstly check and authorize supporting documents before voucher writing. All persons responsible for purchasing goods or service should check bill validity in terms of description of item with their costs, total costs, date and payee name.
  - c) In case of any mistake the bill should be returned to a supplier for alteration and the returning the correct bill however the new written bill will more be accepted than the one with alteration. After supplier alteration no any staff member is allowed to make some changes on the bill
  - d) In case of unavoidable mistakes such as date of transaction only the project head can make changes and a note should be put on the bill bearing necessary reasons for changes however the bill may or may not be accepted by the management.

- e) The name of an organization should be described on the bill
- f) In case the bill is in other language other than English, it should be converted in English when writing voucher for proper understanding.
- Approval of invoices
  - a) The finance officer should check the accuracy of all invoices before making payment.
  - b) An accountant should ensure all invoices have been approved by the head of organization or CEO (one week is enough for approval).

## **8. CASH BOOK MAINTANANCE**

This is a bookkeeping mode where by each transaction is recorded either as income or expenditure. Cash book is a primary book of entry prepared after a voucher of a given transaction has been prepared. KARUDECA uses two column cash book where by all cash and bank transactions are recorded. The following views needs to be considered

- a) In case single column is maintained bank book needs to be maintained separately too.
- b) In case of any mistake appearance rectification entry should be passed or use of correction fluid since no cutting is allowed in two column cash book.
- c) Cash book should be written regularly according to the dates of transactions and its balance should be shown.
- d) Cash book should be kept in the office and checked by a competent authority every month.

## **9. TYPES OF BOOKS AND DOCUMENTS TO BE MAINTAINED.**

The list below shows books and documents of bookkeeping to be maintained for proper and systematic accounting in the organization.

- a) Bank payments and receipt vouchers
- b) Cash payment and receipts vouchers
- c) General ledgers
- d) Contracts and registration documents
- e) Utilization certificates
- f) Bank mandate and authorized signatories file
- g) Budget copies for various grants
- h) Fixed asset register

## **10. PREPARATION OF FINAL ACCOUNTS**

This includes income and expenditure statement and balance sheet which should be prepared at the end of each year. Financial position and credit worthiness of an organization can be declared through final accounts statements.



## EXPENDITURE SUPPORTING DOCUMENTS

These are evidences necessary for any expenditure transaction to be made. They are divided into three categories such as workshop, management and salary expenditures as explained below

### **11. WORKSHOP EXPENDITURE**

These expenditures are incurred when trainings, workshops and meetings are conducted in an organization. The main evidences required is to prove if the workshop really took place, date, venue used, intended participants, intended message delivered and service or goods purchased to support the workshop or meeting. In reality these costs needs much care and adequately accounted for as they may cost higher so the budget should not be exceeded.

Following are the expenditures normally incurred with their supporting documents needed.

- a) Participant's subsistence allowance – allowance payment sheet with name, organization, designation, contacts and signature are needed to prove payment. Attendance registers for each day and registration form are required to prove the activity done.
- b) Workshop participants transport allowance as a refund – documents needed for payment proof are allowance payment sheet with name, organization, designation, contacts, signature and tax or bus fare ticket are needed to prove payment. Registration form is required to prove the activity done.
- c) Facilitation fee – receipt or acknowledge letter from the facilitator and contract of service are needed to prove payment. Certified facilitators report and selection criteria (authority to the facilitator to provide such service) are required to prove the service provided
- d) Meals and refreshments- local purchase order, invoice and receipt are required to prove payment. Attendance registers for each day and registration form are required to prove the service provided.
- e) Stationery or information packs – invoice and receipt are needed to prove payment. Delivery note is needed to prove service provided.
- f) Venue hire – invoice and receipts are required to prove payment.
- g) Fuels purchase – receipt is required to prove payment and log book indicating trips done and distance covered are needed to prove the activity done.
- h) Subsistence travel allowances – travel authorization form that shows a place, activity, cost approved and authorized by signatories, allowance payment sheet signed by payees are required to prove payment. Activity report is needed to prove the activity done.
- i) Hiring of consultants – contracts, curriculum vitae, and acknowledgement of payment are required to prove payment. Consultancy report is required to prove the service provided.

## MANAGEMENT COSTS

These include coordination and administrative costs of day to day running activities such as provision of services or goods. Most of them are paid directly to the specific suppliers thus budget limits should be considered. The following explanations consider the expenditures normally incurred as administrative costs with their necessary supporting documents to be attached.

- a) Purchase of fuel – receipt is required as evidence of payment and a log book indicating trips done and distances covered are required to prove the activity performed.
- b) Vehicle hire – a receipt or certificate of expense is required as evidence of payment. A log book, letter or invoice to claim payments and contract of agreement indicating mileages are required to prove the activity performed.
- c) Telephone bills or airtime purchase – shop receipt or scratch cards for airtime vouchers are required to prove payment.
- d) Office stationeries and supplies – invoice and a receipt are required to prove payment and delivery note is required to prove the service provided.
- e) Office equipment maintenance and repairs - – invoice and a receipt are required to prove payment. Delivery note and a job card is required to prove the service provided.
- f) Rent – invoice, receipt and contract are required to prove payment.
- g) Electricity – TANESCO bill is required for payment evidence.
- h) Any other procurement – invoice and a receipt is required for payment evidence and delivery note for proving service or goods purchased.

## **12. DEALING WITH CHALLENGES IN GETTING 3 QUOTES**

KARUDECA knows well that in purchasing goods, it might happen that, no competitions from suppliers so the responsible management will be informed to prove a quotation from a single supplier. Supporting document to prove the authority opinions should be attached. Also the management has power to choose a specific supplier to be permanent supplier to the organization according to the quality, price, availability, delivery payment terms and conditions of goods or service provided.

## **13. MONTHLY REPORTING**

Financial reporting is a key project requirement and contractual obligation. Timing, content and quality of the reports are fundamental factors that determine the health of any undertakings. KARUDECA shall ensure that reports are done and submitted to donors timely and accurately and that all the supporting documents are adequate, valid and accurate.

- Reporting dates and deadlines

Reports should normally submitted every 30<sup>th</sup> or 31<sup>st</sup> date of every month except for the month in which the project work was not obliged to be done. Well and timely submitted reports ensure proper financial closing.

- Supporting documents

These are part of report sent monthly, they include original attachments of all expenditure and other receipts. Characteristics of valid supporting documents are listed below.

- a) Supplier's address and contacts,
- b) TIN number (tax payer identification number)
- c) Stamp of the supplier
- d) Document number
- e) Date the document is issued/written
- f) Document title (receipt/cash sale/invoice, proforma invoice)
- g) Company logo (if applicable, affordable).

#### **14. EXPENDITURE MONITORING**

Any successful project implementation within budget limits cannot be achieved without expenditure against budget monitoring. KARUDECA shall prepare a tool that will help to monitor its expenditures by updating it every month and the actual expenditure column must have a total reconciled to the monthly reports.

## **15. PURCHASES/ PROCUREMENT PROCEDURES.**

### **A: Authorization:-**

Capital and recurrent expenditure shall be incurred by KARUDECA based on approved estimates as per plan.

### **B: Quotations:-**

i) All types of purchases whose prices are controlled shall be procured from genuine and authorized suppliers.

ii) As far as possible all types of purchases shall be made from registered companies that have TIN and VAT certificates.

iii) In respect of times whose prices are not controlled and in each case exceeds Tshs 500,000/= Quotations shall be obtained from at least three suppliers.

iv) The criteria for awarding the contract for supply of goods / rendering services shall not necessarily be the price alone but other factors like quality, timeliness of supply, dependability of the supplier act shall also be taken into consideration. Items of capital nature and other orders involving huge quantities of good shall be considered and approved by the tender committee. The tender committee will comprise of the CEO, Project coordinator, the finance manager and accountant.

### **C: Purchase requisition:**

The stores officer (the keeper of Inventory) has to originate the request to order and send it to the respective head of department for counter signing. When the head of Finance department is satisfied with the request, he will sign the order and send it to the purchasing officer (any person assigned the task). The purchasing officer should give the estimated cost of the items requisitioned on the basis of current price list, last purchases or using proforma invoices from to the CEO who has to ensure that there is a budget provision and availability of funds before giving his sanction.

### **D: Purchase Order**

i) The award of contract for supply of goods or services shall be in the form of a purchase order or an agreement between the organization and the supplier/ contractor.

ii) The purchase order book shall be serially numbered and kept in safe custody by the purchasing officer.

iii) Purchase Advances.

All advances for purchase shall be authorized by the head of finance. The Purchase advances should be settled within three days from the date of advance. The designated accountant shall maintain memorandum register to record particulars of all purchase advanced given and their settlements.

**E: Selection of possible suppliers.**

a) As far as possible should be selected by obtaining scaled quotations, which shall be scrutinized by the tender committee.

b) The method of obtaining scaled quotations may be dispensed with, in the following circumstances:-

i) If the prices have been fixed by the price commission.

ii) If it established that the correct specifications could be supplied only by the manufactures.

c) The prospective suppliers must be given sufficient time so that even those who are far away from the district will have a chance to send in their quotations.

d) When calling for scaled quotations the number of quotations should be as many as possible but not less than 3 quotations and such number should be determined by reference to the register of suppliers and contractors. The designated accountant shall do the costing on all quotations and rate them to enable the tender committee select the most convenient and suitable supplier.

**E: Receiving of Goods:-**

The goods must be received only by the keeper of inventory, on receipt of the goods he/she must compare with the purchase order difference or damage must be reported for further action.

**G: Processing of suppliers invoices:-**

i) All invoices from the suppliers will be received directly by the designated Accountant.

ii) Invoices will be annexed to the payment voucher along the other relevant documents.

iv) The prices indicated on the invoices checked against prices shown in the purchase order, or the tender agreement.

v) All invoices should quote the purchase order number and any invoice not carrying this reference should be returned to the supplier.

#### **H: Preparation of payment Voucher:**

The payment voucher for goods or services received will be supported by the following documents:-

1. Copy of the local purchase order with the acknowledgement for goods (Stores Receipt Note).
2. Order from the organization.
3. Invoices supporting the claim
4. Letter of claims /Certificates of work where it relates to services.

#### **I: Retention & Asset Disposal**

The government and other donors require that certain records be retained at least 5 years. These include purchase orders, accounts payable records, invoices, journal entries, paid checks, receiving reports, work orders for maintenance and other services, Audit reports, equipment records and some payroll records.

Asset disposal is a special case since the asset like computers and laptops with any sensitive data must be removed first during or prior to disposal.

In order to comply with Government and donor requirements, all other assets and properties owned by KARUDECA, donated or acquired through donor funds including documents shall be retained for the period of not less than seven years.

**Prepared by KARUDECA Management.**

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