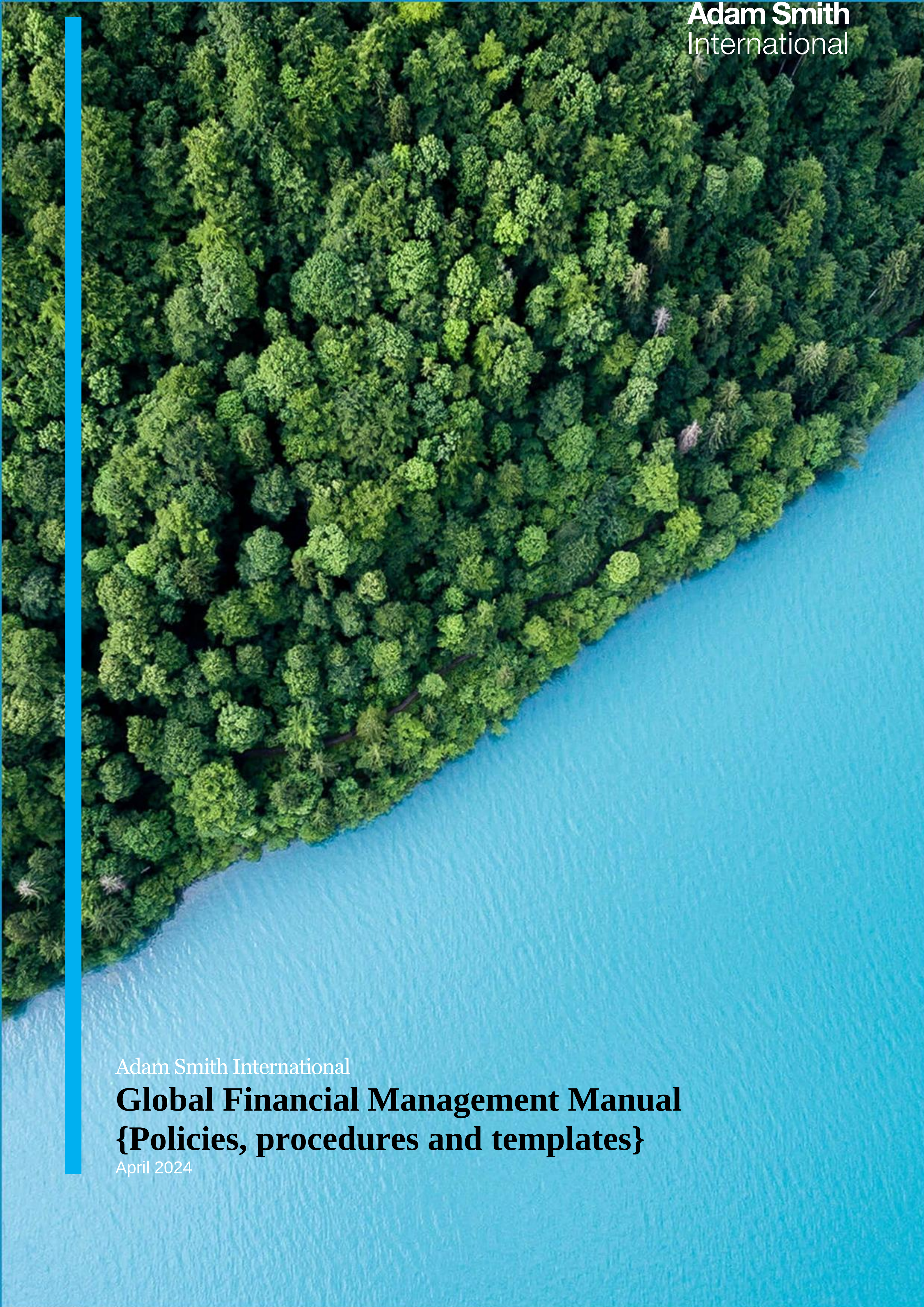

Adam Smith International

Adam Smith International

Global Financial Management Manual {Policies, procedures and templates}

April 2024

Contents

Introduction to this manual

The manual aims to assist those involved in financial management aspects within the Adam Smith International Group. It concerns both design and implementation of financial management systems, including financial reporting. The manual contains core financial management procedures. Regional financial management procedures should adhere to the Global Financial Manual.

Each country office is required to adopt their financial management policies and procedures to meet the requirements and instructions within this manual.

It is the responsibility of the Regional Director to ensure that their country of responsibility has an effective and appropriate country level financial management policy; and that necessary approval of the country level policy document has been obtained.

1. Introduction

Adam Smith International {subsidiary / branch office} is a corporate and / or project implementation base for the country projects. The office seeks to make a significant contribution to achieve the following objectives:

- To successfully manage on the ground operations of the country based projects.
- To provide effective office facilities and support for Adam Smith International consultants and staff for the different ongoing projects and resource persons within the country.
- To prudently manage the adaption and implementation of the changing legal requirements as may be advised from time to time by local regulation.
- To adopt, implement and maintain effective accounting and administration systems and procedures that would support project activities in the country.

As part of its overall organisational structure and systems, the country office has adopted this detailed financial management manual, accounting and procedures policies to support and coordinate corporate and project activities effectively and efficiently, in order to carry out its core objectives.

Any questions, improvements or recommendations should be addressed to Regional Director.

2. Purpose and Framework of the Financial Management Policy

2.1. Purpose and Scope of the Policy

Adam Smith International is accountable to its employees, shareholders, customers, suppliers, the public, and government agencies for ensuring the integrity of its financial data and transactions. The country financial management manual facilitates the company's accountability to its employees by setting out sufficient policies, standards and procedures across all financial management functions and activities in the country. The purpose of this manual is to:

- Ensure that Adam Smith International country office is responsibly and transparently managing and accounting for the funds it receives to fulfil its mission and strategic objectives;
- Provide some basic country level control procedures that will be adhered to across all country programme offices;
- Provide a common set of minimum standards for financial management procedures across all countries, ensuring value for money is obtained, through consistent and effective financial management;
- Act as a reference document for users at country level;
- Remove subjective judgments within financial management processes;
- Enable budget holders to control expenditure against budgets;
- Facilitate accurate reporting against agreed budgets to all stakeholders;
- Improve accountability both nationally and internationally, as well as within Adam Smith International and to all stakeholders;
- Provide a basis of documentation where country procedures can easily be added with annexes to enable compliance with Adam Smith International central policies, to ensure true and accurate submission of annual accounts required in the UK;
- It will also ensure general compliance with:
  - Adam Smith International Head Office corporate financial standards,
  - Project accounting standards,
  - Programme accounting and reporting requirements,
  - Local regulation and law, and
  - Adam Smith International management articulation and directives.
- Provide financial and accounting policies and standards that will cover the following broad areas:
  - Accounting information systems,
  - Corporate accounting
  - Project accounting
  - Internal procedures and records
  - Budgeting and forecasting
  - Procurement and purchasing

- Cash flow management
- Audit and Assurance
- Tax administration
- Financial reporting

Ultimately the Director of Region or Project Director is responsible for ensuring the financial procedures in country are carried out in line with the Financial Policies of Adam Smith International, and that programme policies meet the standards required within the policy. Whilst it is the ultimate responsibility of the Director of Region or Project Director, it must be noted that it is the responsibility of all Adam Smith International staff that these policies and procedures are adhered to. It is within the role of the local Finance Manager to ensure that processes and procedures for in country programme offices are in-line with the Global Financial Management Policy.

2.2. Values Underpinning Financial Management

Effective financial management is not simply adhering to a list of rules and procedures. For successful financial management we need to ensure that we are also adhering to Adam Smith International's values and mission.

- Adam Smith International exists to benefit the lives of vulnerable people and the funds which we receive are for that purpose;
- Adam Smith International generally works in the context of extreme poverty, and in the middle of a development sector where resources are commonly misused and / or wasted – Adherence to our finance management systems and procedures is one to reduce the chances of this happening;
- We are proving that Adam Smith International's work can only be performed with the trust of all stakeholders, communities, staff, donors and governments, and hence our finance management systems must show how we transparently and reliably utilise our resources for the programmes and operations which fulfil our mission and not for any personal gain;
- Any breach in the integrity of our financial management damages not only the reputation of Adam Smith International but of stakeholders involved and the markets we work in at large.

To meet this overriding company mission, Adam Smith International financial management would be underpinned by the following financial values:

- **Accountable**

  We are individually and collectively accountable for what we do. Our clients trust us to ensure their investment is spent wisely and responsibly, and they trust us to be discreet and professional at all times. We must conduct ourselves with honesty and integrity and we must be transparent in everything we do. This includes ensuring transparency in our supply chain to enable us to be accountable to the clients who fund our work, and to the beneficiaries with whom we work to deliver change. We must also ensure that our partners and suppliers meet these exacting standards

- **Excellence**

  We maintain and promote professional standards in everything we do. We set high standards for ourselves and our partners. As we strive for excellence, we are committed to putting our people, our partners and beneficiaries before profit. Our clients are entitled to the highest quality of service, delivered in the right way. Our greatest asset is our people. We value the diversity of our team: a talented group of people from around the world, from different backgrounds, bringing diverse talents and ideas to deliver positive change

- **Results Driven**

  We take pride in delivering our best to achieve results

  We believe that fair competition drives results and value for money. We pride ourselves in delivering results and impact. We strive to deliver through disciplined management of resources and we strive to learn from our successes and our failures, with honesty and humility. Our ability to deliver specialist projects in challenging circumstances is unique, but we must always compete fairly and responsibly, in line with the highest ethical standards

- **Resourceful**

  We think innovatively to reach solutions. We always find a way to deliver the best results in the toughest places. However, we will always ensure that our resources are ethically sourced. We choose suppliers and partners carefully: we use objective and competitive selection processes, we conduct thorough background checks and due diligence; and, we employ rigorous performance measurement and management processes

2.3. Internal Control Environment

Adam Smith International's internal control process is designed to provide reasonable assurance that the Company achieves its objectives regarding effectiveness of operations, reliability of financial data and reports, and adherence to compliance requirements with applicable laws, regulations and contractual obligations. Control is an integral part of the overall process of managing the company at country level.

2.3.1 Management Responsibilities and Leadership

Adam Smith International Management (being the Executive Team) is the owner of Adam Smith International's system of internal controls and is responsible to provide the Board of Directors reasonable assurance that:

- Adam Smith International's resources, including its people, assets, systems, data / information bases and customer goodwill are adequately protected;
- Data and information published internally or externally is complete, accurate, reliable and timely;
- Actions of Directors, officers, and employees are in compliance with Adam Smith International's policies, standards, procedures and all applicable laws, regulations and contractual obligations;
- Resources are acquired economically and employed profitably, and

  Adam Smith International's plans, programs, objectives and goals are achieved.

2.3.2 Country level Directors, Managers and Staff

Control, at country level, is a responsibility of country level management and is an integral part of the overall process of managing operations across the company. As such, managers at all levels of the organisation are obliged to:

- Establish practical control processes that require and encourage employees in their organisations to carry out their duties and responsibilities in a manner that achieves the five objectives of Adam Smith International Executive Team (as outlined in the preceding paragraph);
- Maintain the effectiveness of the control processes that management has established and foster continuous improvement to these processes;
- Identify and evaluate potential loss exposures related to a manager's particular sphere of operations;

  Specify and establish policies, plans and operating standards, procedures, systems and other disciplines to be used to minimize, mitigate and / or limit the risks associated with the exposures identified.

2.3.3 Audit Committee of the Board of Directors Responsibilities

The Audit Committee is responsible for monitoring, overseeing and evaluating the duties and responsibilities of management, the Internal Audit department and the external auditors as those duties and responsibilities relate to the organisation's processes for controlling its operations. The Audit Committee is also responsible for determining that all major issues reported by these parties are satisfactorily resolved.

Internal Audit is charged with the responsibility for ascertaining whether the ongoing processes for controlling operations throughout Adam Smith International are adequately designed and are functioning in an effective manner, and for recommending actions to improve those processes.

2.3.4 Other Personnel Responsibilities

Internal control is the responsibility of everyone within Adam Smith International and therefore should be an explicit or implicit part of everyone's job description. All employees produce information used in the internal control system or take other actions needed to effect control.

All employees are responsible for communicating upward problems in operations, noncompliance with the code of conduct, other policy violations, or illegal actions.

2.4. Authority and Approval

The Board of Directors of Adam Smith International has established the authority of Adam Smith International's management to operate the Company and conduct the Company's affairs within the ordinary course of business. Delegation of authority facilitates all matters necessary for the day-to-day management of the Company.

2.4.1 Policy

The Board of Directors delegates certain matters of authority to Adam Smith International's management and reserves other matters for the approval of the Board itself. The matters specifically reserved for the approval of the Board include decisions about Company strategy and policies, as well as matters involving amounts in excess of specified limits of authority for transactions, such as acquisitions / divestitures, capital expenditures and financing activities.

All matters necessary for the day-to-day management of the Company are delegated to Adam Smith International's management. Executive management has delegated authority to the various operations and corporate staff functions for the day-to-day operations of the Company.

These delegations include normal purchasing authority, authority for normal expenditures, as well as capital expenditures up to specified amounts, and processing of expenditures for payment.

Each country office within Adam Smith International is required to document the delegation of authority within the organisation in line with the company authority and approvals matrix, as approved by the board. This delegation will identify authority by nature of activity, by amount and by individual authority. This documentation must be kept up to date and maintained locally where the activity occurs.

This documentation is required for purposes of day-to-day operations, audit and maintenance of the system of internal controls. Delegations are limited by the scope of activities and the amounts delegated to the local head of that organisation.

2.4.2 Procedures

No staff member may requisition funds and authorise their own requisition, or approve their own expense claims. For example, if a Programme Manager requisitions funds, the Project Director must authorise them, if they are not in the same office via email or as per monthly meeting in line with Staff Returns Enforcement Policy. The segregation of these duties is imperative for control purposes. The authorisation limits are for the total of all items of expenditure and managers may only authorise expenditure from their unit budget.

Formal appointment of budget holders will be made by the Executive Committee and the appointments documented. It is the responsibility of the local Finance Managers to ensure that all budget holders are trained in financial management procedures and policies to execute their responsibilities, and to make sure that all budget holders are involved in and aware of all budget development and budget reforecasting processes.

2.4.3 Templates and examples

ANNEX 1: Corporate authority and approval matrix

ANNEX 2: Staff Returns Enforcement Policy

EX01: Documented country level delegated matrix example

3. Accounting Information System

3.1 Policy

Each subsidiary or branch is required to use a global accounting system Sage Intacct integrated with an Operational System (OS) tailored for effective project management (see section 11).

For small project offices, a localised receipts to payment (RPS)/cash book will be set up by the Head Office Finance Team.

4. Local Chart of Accounts

4.1 Policy

The general structure of country office accounts should be based on a common accounting classification comparable and linked to the Head Office accounts structure. The country chart of accounts must be approved by the Group Financial Controller before implementation.

The maintenance, upkeep and continued adherence of country level accounting structure and codes will be the responsibility of the regional Finance Manager.

4.2 Group nominal accounts structure

The Adam Smith International Group, including subsidiaries and branches, operate on a unified chart of accounts in Sage Intacct which is maintained by the Head Office.

The current chart of accounts comprises of 4 sections:

- Balance Sheet: 10000-39999
- Income: 40000-49999
- Cost of Sales: 50000-59999
- Corporate Overheads: 70000-79999

4.3 Accounts structure

The local office will have the following major classifications within its nominal accounts structure:

Table 1 Local office accounts structure

Section	Structure
Assets	› Classifies and records assets in line with the financial framework specific to each country. The appropriate depreciation method should be recorded in Sage to ensure accurate automatic depreciation calculation on monthly basis
Liabilities	› Classifies and records liabilities in line with the financial framework specific to each country
Equity	› Classifies and records equity and reserves movements in line with the financial framework specific to each country
Corporate expenses	› Records budgeted country specific overhead costs; ○ Office running costs or overheads ○ Team or staff costs
Project expenses	› Records project related direct expenses; ○ Project fees ▪ Consultant time costs ▪ Utilised staff time costs ○ Project direct pass through expenses

4.4 Templates

TE01: Adam Smith International Group nominal Chart of Accounts

5. Accounting Policies

The financial accounting standards refer to the overall design and operation of all fiscal policies, procedures, and internal controls applied across Adam Smith International. These standards ensure that adequate documentation of transactions is retained and that Adam Smith International's assets are appropriately safeguarded and efficiently utilised in order to achieve key programme objectives.

The Adam Smith International Head Office Finance Department has the primary responsibility for setting the financial management standards.

Strong financial management is critical to the efficient and effective use of Adam Smith International funds for country operations and programme delivery. The ability to provide accurate and timely financial information enables Adam Smith International to adhere to formal accounting standards and to comply with the reporting obligations. Accurate, detailed, and timely financial information is required in management decision-making, budget monitoring, and programme operations.

5.1 Basis of accounting

The financial statements should be prepared in accordance with Generally Accepted Accounting Practice (GAAP) and comply with International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS), as well as local regulation within each country. The group prepares Financial Statements on a historical cost basis of accounting, while recognising income and expenditure on accrual basis.

The Financial Statements of each country offices should be prepared and presented in local currency. These should be submitted to Head Office, Finance department annually for group reporting purposes.

Where required, project financial statements will be presented in the agreed (Client contract) currency on the basis of agreed foreign exchange translations.

5.2 Currency management

All locations across the Globe are expected to operate using the Group Sage accounting system, with using it's own entity in the case of subsidiaries, or operating a location classification within the available branch entities, for branch offices. All currencies can be recorded as inputs to Sage, and output reports can be tailored to suit reporting requirements. As general guidance;

- Foreign currency received is translated to local currency at the rate ruling when funding was received as per negotiated bank rates.
- Foreign currency transactions incurred during the any specific month are translated to local accounting currency at the monthly average rate, obtained from www.oanda.com
- Where, for regulatory reasons, the Oanda rate cannot be applied, transactions should be captured (translated) using the average rate ruling at the beginning of each month by the country's central bank rate or the acceptable rate as per regulation.
- Costs incurred during the period are translated at the ruling rates when payments are made.

Any foreign cash balances on hand at the month and year-end are converted to local currency at the rate ruling on the last day of the corresponding month. The resulting exchange gains or losses are recognised in the income statement for the year.

5.3 Annual time table

Table 2 Annual time table

Adam Smith International Financial Management	Work Plan	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Financial Accounting Routines													
Banking	Weekly	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
Payroll	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Preparation of cheques / expenditure vouchers /	Daily	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Prepare / check purchase requests	Daily	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Review log books	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Review account receivables	Weekly	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
Review account payables	Weekly	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
Update cash and bank books	Weekly	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
Reconcile cash and bank books	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Post staff advances retirements	Weekly	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
Reconcile receivables and payables	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Filing	Daily	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Update asset registers	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Year End													
Retire all outstanding staff advances and loans	Annually												✓
Calculate and post depreciation	Annually												✓
Prepare financial statements	Annually		✓										
Draft accounts sent to Head Office	Annually		✓										
Prepare audit file	Annually		✓										
Latest bank mandate letter sent to Head Office	Annually		✓										
Auditor's visit	Annually		✓										
Audited accounts sent to Head Office	Annually			✓									
Internal Audit													
Host internal audit	Ad-hoc												
Implement internal audit recommendations	Ad-hoc												
Budgeting													
Prepare strategic budget	Annually									✓			
Prepare operational budget	Annually										✓		
Incorporate Head Office feedback	Annually												✓
Global budget Board approval	Annually												✓
Corporate forecast submission	Quarterly			✓			✓			✓			
Corporate forecast approval	Quarterly				✓			✓			✓		
Project forecasts	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Reports													
Preparation of management accounts – TB	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Preparation of cash flow report – Head Office & Donor	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Preparation of donor reports	Ad-hoc												
Reviews													
Regular suppliers	Annually				✓								
Timesheets	Monthly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Holiday leave forms	Weekly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Insurance cover	Annually	✓											
Finance manual review	Annually											✓	

5.4 Period control

Period control is characterised as financial control over transactions posted to a specific period within the accounts database. When entering transactions to the database, all entries should be recorded as the date in which the transactions was incurred, but the accounting period to which the cost is allocated must be considered to ensure it is posted to the current period of reporting.

Once the intercompany invoice is raised or Receipts and Payment Statement (RPS) submitted to Head Office the accounting period for country offices is considered closed. All transactions captured after that date should be recorded in the following accounting period. This will ensure that no project costs are omitted from being charged to Donors.

The Group Financial Controller to close the current period of accounts within:

- The purchase ledger module 6th working day
- The sales ledger module 8th working day
- The general ledger module 10th working day

This will act as an element of control.

Verification that all project costs have been correctly reported in the accounting period should be a monthly reconciliation performed by the Project Accountant for project-related costs and the Management Accountant for corporate overheads.

5.5 Management accounts requirement

Preparation of country level management accounts is an important aspect of financial oversight and control. The preparation of these accounts suggest that all controls, analysis, verification and reporting has been done and therefore confirm reasonable assurance that financial data and reports are accurate.

Management accounts and commentary must be prepared and submitted to the Head Office on or before the 15th of each month for the period ending the previous month.

All country level management accounts and reports must have sufficient records and analysis of the following:

Table 3 Management accounts requirement

Record and analysis	Rationale
Corporate financial performance	› Reconciled profit and loss account showing month to month country level income, cost of sales, corporate overheads and profitability
Budget performance	› Variance analysis of actual vs budget/forecast showing month to month and YTD country level performance of the budget
Staff utilisation	› Where local payroll and staff utilisation is administered, there should be an analysis showing local staff utilisation linked to the P&L
Balance sheet position and schedule	› Month to month summary of balance sheet movement › Reconciled schedules of key balance sheet accounts, including: ○ Schedule and listing of accounts payable ○ Schedule and listing of accounts receivable ○ Schedule and listing of intercompany movements ○ Schedule and listing of fund accounts, where applicable ○ Staff and Associates advance report ○ Payroll to ledger summary reconciliation ○ Asset movement register ○ Any other substantive balance sheet item
Project financial data analysis	› Project Financial Analysis conducted by Project Accounting Team: ○ YTD Actual GM v Budget/Forecast v Baseline ○ Revenue YTD Actuals v Budget/Forecast v Baseline ○ Invoicing cycle: proforma issued to cash received ○ Highlight main risks

5.6 Financial Statements requirements

Each year, the office should prepare a set of audited financial statement of the previous financial year. Audited accounts must be signed off and submitted to Head Office on or before the 31st March of the following year.

5.7 Roles and responsibilities

Signatory authority and responsibilities will be guided by the company authority and approval matrix. However, each country must have a clear and detailed roles and responsibility matrix across key responsible personnel in the financial management function.

At a minimum, the following will apply:

Table 4 Roles and responsibilities

Principal User	General Responsibility and Function
Head of Region	› The overall responsibility and accountability for financial management across the region encompass a wide range of duties, including but not limited to: ○ Implementation of Head Office policies ○ Assets and finances of their office ○ All supporting documentation ○ Country level budget and financial performance ○ Signing off monthly accounts to the Head Office ○ The Head of Region will provide line management to the Regional Head of Finance on a matrix basis, sharing responsibility with the Head of FP&R.
Project Director	› While the Head of Region may not always be involved in project delivery within their designated region, the Director of Programme maintains full accountability for project delivery within the country for their allocated project portfolio, even when not serving in the capacity of Head of Region: ○ Implementation of the local office policies ○ Assets and finances of their office ○ All supporting documentation ○ Country level budget and financial performance including costs sign off in accordance to global approval matrix ○ Signing off monthly project reporting to the Head Office ○ Signing off budgets and monthly re-forecasts
Project Manager	› Planning and developing project budgets › Monthly project re-forecasts › Managing the financial performance of the project: ○ Tracking expenses, and ensuring that the project stays within budget constraints ○ Ensure that only allowable costs are charged to the project by rigorously vetting expenditures to prevent disallowable costs. Prior to authorising any expenditure, clarify which costs are permissible within the project scope to maintain compliance and transparency › Ensure project financial process are in line with country financial

	management policy and procedures
Head of Regional Finance Team	› Review requests of cash to be transferred to country office bank accounts and liaise with the Treasury Officer at the Head Office to ensure the timely and secure allocation of funds › Review, analyse, investigate variances and provide commentary within the management accounts › Review coding of transactions in management accounts. › Check bank transfers from the Head Office are recorded as field office receipts. Check transfers between bank accounts and petty cash › Where country office suppliers are limited, large items should be procured centrally from head office › Review of country bank reconciliations and petty cash counts › Overseeing and procuring audit
Finance Manager	› Day to day financial management and accounting › Finance policy implementation and review › Management of country level finance team › Formulating budget estimates in support of project objectives › Justifying budget requests and developing of plans for allocating resources › Monitoring programme financial execution, reviewing and analysing funding documents › Conducting comparative analysis to examine trends › Maintain an office asset register › Post corporate costs accruals
Shared Services	› Post all accounting transactions into the accounting system from their source document in an organised and well sequenced manner › Make sure all transactions are well supported and back-ups are provided › Maintain a well sequenced filing system › Chief custodian of all files in the office › In conjunction with the Country Manager, provide cash flow management support and cash custody › Prepare for audits and assessments, assists auditors with queries › Cash and Bank reconciliation for allocated entities › Deal with accruals and prepayments

Compliance and Risk Team – we do not have in place but would be worthy to implement by allocating existing members of staff to conduct quarterly checks?	› Country office review to test compliance with finance procedures and supporting documentation. Providing recommendation on improvements. › Provide training and business advisory support to country level finance staff.

5.7.1 Templates and examples

EX03 (a): Detailed financial management roles and responsibility matrix example – where is it?

EX03 (b): Finance Department RACI – I have created the template that needs to be updated.

5.8 Segregation of Duties

5.8.1 Policy

- In addition to staff authorisation levels, Adam Smith International requires a segregation of duties in the accounting for expenditure
- Each transaction should have two at least authorised signatures for expenses exceeding £50k or the equivalent amount specific to each country in line with the Approval Matrix:
    - Programme management: the Project Manager to ensure spend against project deliverables activities, and approved budget line supported by appropriate documentation. A secondary approval by the Project Director to reinforce the overarching financial management accountability for the successful delivery of the programme
- For corporate expenditures, the budget holder of the respective department is responsible for providing the initial authorisation. Subsequently, a second authorised signature is required, which should be provided by another individual in accordance with the authority limits outlined in section 2.4
- If an expense claim or purchase order is for an amount higher than the budget holder's authority limit then the signature of an additional authoriser (in line with the limits in section 2.4) should also be obtained.

5.8.2 Templates and examples

EX04: Country level contracting guidance note example – where is this?

5.9 Storage of Information

5.9.1 Requirements to Store Financial Information

- Adam Smith International requires the storage of all accounting information for a minimum of 7 years
- It is the responsibility of the local Finance Manager to ensure all finance staff are backing up and storing the information digitally to the designated Team channel and relevant folders.

- All accounting information should be shipped to the Adam Smith International Head Office (London in preference, but Pakistan, Kenya or Australia are also suitable, dependant on cost) on closure of any of its regional offices. All electronic files should be transferred to the secure site in Adam Smith International Head Office

5.9.2 IT Procedures – confirmed with IT (Paul)

- Where feasible, all files should be stored electronically by scanning physical copies and uploading them to the designated Teams/SharePoint site. Physical copies should then be securely disposed of either through a standard office shredder or outsourced to an external provider. In cases where shredding is done in-house, it is imperative to ensure that the shredding equipment adequately secures the output, preventing the reconstruction of meaningful information;
- All files should be stored in Teams/SharePoint locations approved by both the Head Office and Head of Region. In adherence to our established protocol, backups are centrally generated by the IT team, incorporating version control capabilities. This ensures that in the event of accidental data overwriting, IT possess the capability to revert to prior versions;
- If physical files need storage, it is preferable to house them in another office building, and certainly in a fire-proof lockable cabinet, off-site where feasible. This ensures protection against fire or theft, and is crucial with regards to the financial audits of the accounts of Adam Smith International.

6. Statement of Financial Position (Balance Sheet)

6.1 Fixed assets

6.1.1 Policy

Adam Smith International's objective in relation to fixed asset is to:

- Place the responsibility to safeguard each asset to a specific member of staff;
- Ensure that the assets are properly protected against damage;
- Maintain proper description and classification to facilitate the proper charge for depreciation;
- Maintain adequate and accurate records of an asset, including repair and maintenance costs to provide the company with adequate information for decision making;
- Separate programme assets from corporate assets from corporate assets, ensuring clients are properly updated and informing regarding the custody and condition of programme assets.

All fixed assets purchased during the year should be budgeted for in the corporate and capital budget. All programme assets should be budgeted for in the programme budgets.

Adequate insurance cover should be taken out for all fixed assets based on replacement cost of the assets, both corporate and program. Insurable values will be reviewed regularly to ensure no losses are incurred due to under insurance.

An insurance file / register should be kept and the country finance team should ensure it is up-to-date on all insurance matters and co-ordinate all details for accounting purposes.

6.1.2 Capitalisation

The capitalisation policy sets out a cut-off on assets, both tangible and intangible, within the criterion described below:

- The estimated useful life of the asset should span over one year;
- The value of the asset must be at least £500 or equivalent. All assets under £500 must be treated as an expense, regardless of their usefulness;
- Approval reference must be in line with the global approvals matrix regarding Capex;
- Usage of the asset should be seen to contribute to the operational capability of Adam Smith International;
- The funds used in procuring the asset should be corporate;
- Corporate acquisitions must be planned for in advance through capital budgets;
- All project assets would be expensed as they belong to the project. Treatment of project assets must be in line with the programme contract.

6.1.3 Acquisition

- Corporate assets

Requisition for corporate assets must be in line with the approval authority. Purchase of all asset must follow laid down asset procurement process. There should be evidence of competitiveness, transparency, fairness and value for money across the procurement process.

- Programme assets

  Requisitions for fixed assets are originated from the projects through project managers and submitted to the Country Lead / Project Director for approval. Once the Director approves the purchase, proper procurement must be undertaken in line with the programme procurement policy. Depending on the policy requirement, a procurement committee, set up by the country team, selects the supplier with the best offer**.** On receipt of the item, the local Finance Manager verifies the delivery note against the invoice. If there are inconsistencies, a follow-up is made.

6.1.4 Depreciation

- Depreciation treatment

  All corporate and capitalised assets will be depreciated over the asset's useful life. Depreciation of programme assets is not a corporate requirement as these assets belong to the client and managed within the agreed contractual terms.

  The local Finance Manager will accurately record fixed assets in Sage Intacct by applying the appropriate depreciation treatment. Sage Intacct will then calculate the corresponding charge, which will be posted as part of the month-end process by the Shared Services team.

  Finance Manager should ensure that the fixed asset register for corporate assets always reconciles with the asset book account.

- Depreciation rates

  Depreciation is computed on the straight line basis and adjusted accordingly for local corporate tax purposes. The global rates are shown below. However, local regulation must be observed and therefore each country must ensure that all rates a compliant with local provisions.

  - Buildings (2%)
  - Motor vehicles (25%)
  - Furniture, fittings and office equipment (10%)
  - Computer equipment (33.33%)
  - Office Equipment (33.33%)
  - Intangible assets (10%)

6.1.5 Fixed Asset register

- Types of registers

  The country finance team will prepare and / or coordinate the maintenance of all country level fixed asset registers. There will be two types of asset registers:

  - Corporate fixed asset register: This register will record all corporate assets and their movements. The register will be in line with corporate policy and guides. It will be reconciled to the asset book in the financial statement. It must be supported by a fixed asset movement register which will be updated on a monthly basis;

  - Project asset register: The project asset register will record all programme assets. The design of the register must be agreed and signed off by the donor / client. The register will be updated on a monthly basis.

- Structure of the register:

The country team should maintain a fixed assets register. At a minimum, the asset register will have information provided:

- Type of the asset
- Date of purchase
- Relevant project name and code
- Account code
- Location
- Department
- Acquisition cost
- Condition of the asset
- Depreciation Rate
- Date of sale/write off if applicable

- Register updates:
  Both the corporate and project level fixed asset register must be updated on a monthly basis. The corporate fixed asset register must have the asset movement report attached to it.

6.1.6 Asset verification and tagging

The country office is responsible for the safekeeping of all Adam Smith International's assets at country level, regardless of value.

All assets must be verified on a quarterly basis through a periodic physical verification exercise. The local Finance Manager will organise a physical verification of all fixed assets. This is to assess the condition of each asset and must be performed at least twice a year. The last verification should be performed at financial year-end. The project manager must periodically ensure all project assets are being properly recorded and safeguarded.

All tangible assets acquired by Adam Smith International must have a tag **label** affixed to it **on a visible outside surface**, both project and corporate assets.

The local Finance Manager should ensure that all the assets are tagged with an identification code. The identification codes for all the classes should commence with the prefixes itemised below followed by a unique 3 or 4 numerical numbers for each specific item. Such would apply:-

- ASI: Adam Smith International XX (optional)
- FA: Fixed asset
- FF: Furniture and fittings
- D: Desk
- 001: Specific number of desk

Example:

ASI/FA/FF/001: Adam Smith International/Fixed Asset/Furniture and Fittings/Desk/001

The ASI prefix it optional with regard to programme assets depending on client branding and naming requirements.

6.1.7 Asset repairs

Repairs will be processed in the same way as other operating expenses. The repairs could be potentially capitalised based on the following criteria:

- If the repairs enhance productivity capacity; and
- The enhanced productivity benefit more than one accounting period

6.1.8 Upkeep and maintenance of assets

Individual staff members must be held accountable for the maintenance, secure storage and proper use assets under their custody. Assets in a room shared by a number of staff will be the responsibility of the most senior staff in that room. Moveable assets (e.g. computers) and vehicles must be in the charge of the charge of their principle users or drivers. Associates policies must be observed (for instance, the IT policy for computers and the vehicle management policy for vehicles). Any accident or loss of an asset must be reported to your line manager and finance within 24 hours of its occurrence.

6.1.9 Revaluation

Some assets (particularly vehicles), may still be of value even after they have been fully depreciated. When an asset has fully depreciated but still has economic value to the company, then a revaluation should be done within six months or before the end of the related financial year, by a professional valuer to determine the next economic useful life of the asset. Depreciation should then follow accordingly.

All assets shall be measured using the cost model. Revaluation shall only apply to assets that original economic value has been fully depreciated. The revaluation date should coincide with the financial year-end of the entity (ideally 31st December), and subsequent financial years should reflect the revalued amount of the asset.

In the year of valuation, the financial statements should disclose the basis of valuation together with the name and qualifications of the valuer.

6.1.10 Templates and examples?

ANNEX 2: Vehicle usage policy

TE02a: Fixed asset register template

TE02b: Fixed asset register template guidance note

TE03: Asset needs assessment / request form

TE04: Asset disposal form template - donation

6.2 Bank and cash equivalents

6.2.1 Bank

Policy

The Head of Region is accountable for all bank and cash movements. They will work closely with the country finance team, which has responsibility over policy implementation and day to day management of bank and cash transactions. Bank transactions and balances shall be monitored daily by the local finance team with support of project teams. Appropriate and responsive mechanisms shall be instituted to make sure that the company has enough foreign and local currency for operational purposes. All disbursements across projects shall be monitored through project specific RPS or forecast on a monthly basis and shall be analysed as cash equivalents. Petty cash shall be managed and monitored on a float basis. The cash availability shall at all times reflect the operational weight of the overall project and country operations portfolio; this shall be done through periodic project forecast and cash requests.

Bank accounts

Adam Smith International bank accounts must be opened only in agreement with the Director of Region, Executive Team and Board (where applicable) and must be approved by Legal Team.

Signatories

All bank accounts must have signatories according to the Adam Smith International bank signatory authorisation mandate. The local office must have a detailed bank approval matrix in line with local operational needs and banking requirements. At a minimum there must be at least one Principal Manager or Director as an approver. Bank mandates must abide by Adam Smith International's approval matrix. Under no circumstance will Adam Smith International allow one person to be sole signatory on a bank account at any time, unless expressly approved by Adam Smith International CFO.

Online banking

Where online internet banking facilities are possible, they should only be set up if they allow for the Adam Smith International required dual signatory process, where all online payments and transfers must be approved according to the table of Adam Smith International authorities (section 2.4).

Debit / Credit cards

All Adam Smith International bank accounts with bank cards must be approved by Adam Smith International Group Finance Director. Adam Smith International do not authorise the use of credit cards to obtain cash from ATM machines or banks.

On a quarterly basis, all bank balances and details of bank accounts held in all offices must be reported, including supporting documentation to Adam Smith International Head Office for Finance & Audit Committee review purposes.

6.2.1.1 Issue of payment

Electronic Bank Payments

Bank transfers are encouraged and should take precedence to cheque payments. All individual payments of more than an equivalent of £250 should be made electronically unless there is a justifiable and approved reason. Each country office must discuss and agree with local banks on the procedures and methods of transfers locally (EFT, SWIFT, BACS, etc). The minimum guidelines would include:

- Prior to payment, a payment request form must be completed and authorised by the relevant authorising officer.
- All payments must be approved by two (where possible) nominated signatories (in accordance with the authorised signatory procedures).
- All payments must be supported by original documentation.
- Payments should only be issued to bank accounts in the name of the contracted (registered or trading as) entity.

Cheque Payments

Cheques can be issued and signed only when a payment voucher for any expense is approved by the concerned authorities within their approval limits. Email approvals can be attached with vouchers when approvers are not in the country. It should be noted that if handling cheques can be avoided it should be. An inter-banking transfer is the preferred route to go but it is understood than in some locations this is not possible.

Where cheque payments cannot be avoided, the cheques must be crossed. This comes in the form of two parallel lines the face of the cheque and means it can only be deposited to bank accounts directly, and cannot be exchanged for cash by any bank or other credit institution.

Under no circumstance is the signing of blank or pre-dated cheques allowed. If there are more than one location where cheques are required to be sent requests for such cheques (including all supporting documents) will be emailed by the Office Manager of the location to the main project Office Manager for the appropriate approval. After the payment is approved, the cheque will be completed in the main office location and couriered directly to the vendor (preferable) or to the secondary office location for immediate payment.

The minimum guidelines would include:

- Prior to payment a cheque request form must be completed and authorised by the relevant authorising officer.
- All cheques must be signed by two nominated signatories according to the table of Adam Smith International authorities (section 2.4).
- Cheques must NEVER be pre-signed. This condition protects both Adam Smith International, and the individual signatory.
- Cheques will not be made payable to “bearer,” “cash,” or some other unidentifiable entity.
- No pre-signed cheques will be held in a secondary office location unless authorised by the Project Director.
- All expenditure made by cheque should have a cheque request voucher as backup, as well as an invoice and Payment Order / Petty Cash voucher where appropriate, as well as a receipt.
- The cheque-book will be kept safely in a cash box all the time.
- A copy of the issued cheque must be kept with the payment voucher for reference.

The payment voucher – these are still in use in Africa but we do need to review the process so we could eliminate these inefficiencies.

The Payment voucher form is designed to contain basic information relating to bank payments such as: date, project code, cost category, amount and description. The payment voucher is attached with original supporting documents (invoices and receipts) to describe and prove the authenticity of the transaction.

Supporting documentation on the procurement process (e.g. quotations, tender document, and decision note) followed should be attached to the payment voucher.

Payment vouchers should be completed each day (on working days), and must adhere to the following guidance:

- Ideally, the payment voucher is used to record and manage all transactions from the bank.
- Vouchers must be numbered in sequence with their booking entry and filed chronologically. No duplicate numbers should be issued;
- Wherever possible, the date of the voucher should be identical to the date when the transaction had taken place;
- The amount has to be identical on the original bills and in the accounts;
- For invoices / bills received in foreign currency and paid from local currency account, it is preferable that the current exchange rate (www.oanda.com) is used. Market rates should be avoided at all costs. This should be agreed and documented with the supplier in the same invoice or through email (which should be attached to the payment voucher).
- Each voucher has to be approved and signed by the concerned authority (persons holding power to approve the payment);

Payment vouchers should be checked for the following before they are signed:

- Whether required supporting documents are attached;
- Original is invoice is present. It is address to Adam Smith International’s registered local entity and contains an invoice number;
- Supplier company registration number is printed on the invoice;
- Supplier VAT number is printed on the invoice if applicable;
- Supplier tax identification number (TIN) is printed on the invoice if applicable;

- Supplier payment instructions and bank details are either printed on the invoice or on a letterhead.
- Accuracy of the supporting documents. Recast totals and subtotals;
- Approval by relevant budget holder;
- Accuracy in comparison with orders, pricelists or other documents if any;
- Numerical accuracy on the voucher, e.g. split of costs between projects and budget lines;
- Ensure that payment is not being duplicated;
- Ensure that payments are issued within the agreed payment terms for individual suppliers.

6.2.1.2 Recording of bank transactions

Policy

The bank cashbook must be completed by each local Finance Manager/Cash and Bank Manager who has the responsibility of recording income or expenditure against any bank account.

The bank cashbook must record all EFT and cheques payment made in a given month.

The bank cashbook should be updated on a weekly basis to prevent any backlog.

Procedure

- All EFT and cheque payments made are recorded on the Bank cashbook when the payments are issued.
- If a cheque is issued to replenish the cash in the office safe then this transaction must also be recorded using the transfer process in accounting system.
- Cancelled cheques must also be recorded on the bank cashbook with a zero value and 'Cancelled' typed in the description. All cancelled cheques must be kept in the safe box.
- All income that is received is recorded on the bank cashbook when received.

6.2.1.3 Reconciling the bank account

Policy

- Banking transactions feed is set-up in Sage Intacct and the data is pulled the bank accounts daily. Reconciliation statements must be received on a monthly basis for all Adam Smith International bank accounts.
- For segregation of duties where possible the local Finance Manager or Cash and Bank Manager in Shared Services should prepare monthly reconciliations for each bank account held, whether there have been movements in the period or not.

Procedure

- The balance in the bank cashbook may not be the same as the amount on the statement, even if transactions have been properly recorded. There will probably be a number of timing differences. For example, a cheque payment made in the last few days of the month will be recorded in the bank cashbook, but the cheque may not have been presented to, or processed by the bank, and therefore may not appear on the bank statement. Or money paid into the bank during the last few days of the month may not appear on that month's statement. There may also be some transactions on the bank statement that have not been recorded in the accounts. A common example is bank charges, which are deducted directly from the bank account, or interest earned which is added directly to the bank account.
- It is necessary to check whether each transaction appears on the bank statement and in the bank cashbook. This should be done by matching off transactions between the statement and the bank cashbook. Any items that do not appear on both the bank statement and the bank cashbook will be reconcilable differences.
- Transactions on the bank statement such as charges should be posted at the month end, not treated as reconciling.
- Electronic copies of bank statements should be filed in Teams channel on a monthly basis.

Templates and examples

TE05: Payment voucher template

TE06: Purchase request template

TE07: Workshop budget request form

6.2.2 Petty Cash

6.2.2.1 Issue of payment

Policy

- Payments from petty cash should not exceed £100 unless explicit approval for individual transactions are received from the Country Director or Lead based on justification provided. Ideally, such amounts should be paid via a bank-to-bank transfer.
- A petty cash voucher must be completed and approved for each item of expenditure.
- Receipts / invoices must be produced by the staff member prior to receiving the petty cash.

Procedure

- The Petty Cash Voucher must be approved by the budget holder in line with the approval limits stated in section 2.4;
- Invoices / receipts for the expenditure must be submitted to the person responsible for Petty Cash prior to payment being issued;
- Payment should be recorded in a pre-serially numbered, duplicate receipt book. This receipt should be signed by the payee and the employee (or third party if applicable) receiving cash. This receipt should have a unique identification number and recorded on the RPS by this reference, a signed copy of this receipt should be kept by the cashier.
- The expenditure should be posted directly from the cash book to the expense in Sage Intacct.

The petty cash voucher

- The petty cash voucher is designed to document and manage all cash transactions. The petty cash is managed through the Receipt to Payment Statement (RPS), which is a modified cash book that records and analysis all payments made through the petty cash fund.
- Small or petty invoices or receipts of a similar nature & booking code can be grouped for issuing cash vouchers.
- There will be a revolving float of GBP 1,000 or less. While there is no limit on the cash out payment within the petty cash, it should be noted that the petty cash is meant for small / petty cash payments. Each petty cash float must have its own RPS.
- A petty cash request must be made at once the float is below GBP 100 or equivalent. The specific RPS must be attached to every float reconciliation report.
- The petty cash must be reconciled on a monthly basis through the petty cash count form.
- No payment of more than £100 should be made within the petty cash, unless there is a justifiable and approved reason.
- Where the above guidelines are not possible, each country office must prepare a petty cash management policy that must be approved by the Regional Director.

6.2.2.2 Recording of Petty Cash transactions

Policy

- The cashbook must record all cash payments and receipts made in a given month, irrespective of who the cash was received from or paid to.

- The cashbook should be updated on a daily basis to prevent any backlog.
- The Regional Director/Project Director must check and sign one cash count per month.
- Prior to handover of safe cash management (e.g. due to annual leave or travel) a full cash count must be documented and signed by the safe holder and the person assuming the responsibility.
- Where possible, there should be separation of duties between preparing payment requests and issuing payments / recording transactions within the accounting system.

Procedure

- The opening cash balance must equal the closing cash balance of the previous month.
- Cash held in safe boxes must be managed by one Finance staff member, and checked on a weekly basis by the local Finance Manager, using the standard cash count template. This role could be delegated to a project administrative resource, if a local finance resource does not exist, and appropriate controls are in place around the individual.
- Cash Counts for multiple currencies must be completed on separate worksheets and the currency clearly shown.

6.2.2.3 Reconciling Petty Cash

Policy

- A reconciliation to the physical cash balance must be made between the month end and mid-month cash count and the cashbook, explaining any variances between the balance on the cashbook and the money in the safe.

Procedure

- The cash reconciliation must be prepared by the designated person responsible for Petty Cash management and checked/approved by the Head of Region/Project Director.
- The balance shown on the cashbook should be the same as the amount of money in the safe. If not, then either a payment or a receipt has been made but not recorded in the cashbook, or money has been taken from or added to the safe.

Templates and examples

TE08: Petty cash voucher template

TE09: Cash count template

6.2.2.4 Cash safety and insurance

Policy

The office shall maintain a petty cash float within the following administrative parameter:

- Petty cash currency:

  There will be a petty cash float for operational purposes. The currency of the float shall be determined by the country team in coordination with the programme team

- Maximum amount per currency:

  To minimise risks associated with cash handling and custody, it is advisable to have a minimum float replenishment basis of an equivalent of GBP 1,000 or less. However, where such a basis is not possible in a country, the country team must design a country specific approach to handling and custody of cash in order to meet its specific operational requirements.

- Insurance

  The company policy is that the majority of payments should be issued by bank or EFT. However, some country specific circumstances may require substantial cash handling and custody of large amounts of funds. Where the country office is holding large amounts of float or handling large amounts of cash, cash insurance should be obtained. The Regional/Project Director should contact the Head Office, Finance for assistance with insurance.

- Safe box

  All cash must be kept is safe box that is secure and burglar proof (bolted to floor / wall). Purchase of safe boxes must be approved by the country security team.

- Safe box access

  Access to the safe box must be limited to the responsible officer over cash handling, usually the local Finance Manager. For security and verification purposes, an additional trusted senior member of staff should have access to the safe box and keep a spare key. The country office must have a clear procedure for the administration of the safe box within the country level finance policy.

Templates and examples

ANNEX 3: Cash safe box administration policy

6.3 Inter-company receivables and current accounts:

6.3.1 General policy approach

Each country office must have a service level agreement defining the service relationship between Head Office and each respective subsidiary or branch.

The objective of the agreement would be to:

- Create an environment that is conducive for a co-operative relationship between Head Office and the subsidiary or branch.
- Document the responsibilities of all parties, and define the scope of services to be delivered by Head Office to the subsidiary or branch and vice-versa.
- To ensure that tax obligations are met within the country jurisdictions the subsidiary or branch, including:
  - Corporation tax on profits;
  - Income tax for resident staff and associates;
  - Indirect taxes and other forms of taxes;
- Oversight, responsibility and administration of any resultant tax obligations within any of the subsidiary or branch is appropriately addressed (where it is apparent).
- To institute a formal system and framework for inter-company billing, accounting and reporting.
- To provide a common understanding of service requirements / capabilities and of the principals involved in the measurement of this service.
- To reflect details of a professionally conducted transfer priced document (TP Document), with regard to the relationship between Head Office and the subsidiary or branch.

6.3.2 Intercompany accounts engagement

Four different types of intercompany transactions would likely need to be recorded on a monthly basis:

Account Engagement from the country office (subsidiary)	Rationale of engagement
Management fee (Debtor: Intercompany)	› Defines the cost of services the subsidiary or the branch offers to the parent. The management fee rate must be supported by country specific transfer price

	documentation or a document of a comparable country. A service level agreement (SLA) would define the % of fees charged. › Treated as income in the Statement of Income and Retained Earnings in the local entity. › Treated as an Intercompany Debtor in the local entity.
Project reimbursement cost (Debtor: Intercompany)	› Captures reimbursement of UK project related expenses paid for by the local entity. Costs also include direct salary recharges. › Reimbursement costs are charged back to Head Office for onward billing to the client, through a reimbursement invoice › Treated as income in the Statement of Income and Retained Earnings in the local entity. › Treated as an Intercompany Debtor in the local entity.
Intercompany cash movements (Intercompany account)	› Captures cash movements (generally receipts) between Head Office to local entity. › Balances of this account at year end must attract interest on 'loan' in line with local regulations or paid back in full.
Departmental or team costs paid on behalf of local entity (Creditor: Creditor)	› Captures invoices from the UK to the local entity › These invoices would generally be costs incurred by Head Office on account of the subsidiary budget. › Treated as an expense in the Statement of Income and Retained Earnings in the local entity. › Treated as an Intercompany Creditor in the local entity.

All intercompany accounts must be reconciled with the related companies. The local Finance Manager will sign off all intercompany reconciliations on a monthly basis.

6.4 Investments

No investments are required at country level. Any proposed investments must be explicitly approved by the Adam Smith International Group Finance Director.

6.5 Leases

A lease is an agreement conveying the right to use property, plant or equipment for a stated period of time in exchange of agreed periodic cash payments. The owner of the asset is the *lessor* while the one who rents (uses / borrows) the asset is the l*essee.*

Operating leases shall be recognised if the company borrows property and accrues rent (pre-determined periodic payments) expenses. It applies vice-versa.

Capital leases shall be recognised if the company economically owns the property and thus capitalises the asset and reflects it in corresponding lease obligations. It applies vice-versa.

Prepayments and accruals should be treated appropriately in the accounts.

The accounting treatment of leases will depend on local law and regulation and IFRS 16 or its equivalent.

6.6 Staff and associate loans

5.9.3 Policy

The company does not encourage staff loans. However, where a loan is requested, Executive Team approval must be sought and an interest bearing repayment period must also be agreed with the member of staff. The maximum repayment period for a staff loan must be twelve months.

5.9.4 Staff salary advances

The company does not encourage salary advances. However, where a salary advance is necessary, the request must fulfil the following criteria:

- The advance must be justifiable and approved by both the local Regional Head of Finance and Director of Region/Project Director
- The advance must be repayable within a maximum period of three months or the legal limit as per local laws
- It must be possible to fully deduct the advance from payroll within the agreed repayment period.
- All local laws must be observed.
- Associate advances must be recoverable within the same month. If not, a clear approval and recovery plan must be agreed with the project director over the period when the associate has an active contract. Responsibility for associate advances rest solely with the project manager / project director, and any losses arising from such an arrangement will be incurred by the project, or possibly staff member who assumed responsibility for the external advance.

Automatic salary advances are allowable where a new staffer is settling in and all payroll documentations are still being processed (for instance, work permits, visa, tax numbers, etc.)

5.9.5 Staff field advances

It is acceptable to take an advance for a field trip. All field advances must be reconciled within two weeks after the end of the field trip. Where a field advance remains unreconciled for over two months (from the date it was due for return), the automatic and full payroll deduction will be done. All field advance requests and recovery must follow the below basic process:

- Cash requested must be made early enough – preferably one week before date of commence of use. A project cash request form must be filled out.
- Request must be approved by the country or project director and should clearly indicate what the money is needed for.
- Upon completion of activities a reconciliation and refund / claim of money need to be done within one week. This is to discourage misappropriation of funds and use of funds for personal reasons.

5.9.6 Templates and examples

TE10: Advance request form template

6.7 Accounts receivables

All subsidiaries and branches must have an accounts receivable account where all sales invoices (intercompany or otherwise), would be captured.

For country offices, all invoices must be prepared and sent to the client / parent company by the 5th of the following month, for inter-group trading.

Accounts receivable must be reconciled by the 15th of the following month by the country finance team.

6.8 Other current assets

The transactions below should be considered as other current assets due to its nature and characteristics. These transactions should not be recorded in the Statement of Income and Retained Earnings.

- Prepayments
- Rent deposits
- Grant and fund current accounts
- Work-in-progress
- Deferred tax asset
- Withholding tax or VAT on supplier invoices

6.9 Long term liabilities and loans

A long term liability and loan refers to borrowed service or money whose payment would have either of the following characteristics:

- The payment period of the service is expected to take more than three months from the end of the service period
- The loan term is of more than three months
- The loan term includes an interest bearing facility
- Commits the company to payment
- Exposed the company to adverse financial risk in case of non-payment

Country offices are not required to enter into long term liabilities and loans. Where there is justifiable reasons to enter into a long term liability, a justification note must be approved by the Adam Smith International Group CFO.

6.9.1 Template and examples

EX07: Justification memo example

6.10 Accounts payables

All subsidiaries and branches should have an accounts payable account where supplier invoices are captured.

Associate/consultant invoices relating to the previous month is expected to be received by the 3rd working day of the following month. These invoices generally attract payment terms of 30 days and payment should not be delayed unless performance issues have been identified.

Payment terms of 30 days should be negotiated with regular local suppliers.

Accounts payable must be reconciled by the 15th working day of the following month by the local finance team/Shared Services.

6.11 Intercompany creditors

In some cases, particularly with budget holding subsidiaries, Adam Smith International Head Office may incur costs on behalf of the subsidiary and in turn charge these costs to the subsidiary through an intercompany invoice. This invoice must be posted into the subsidiary accounts as an intercompany creditor. All intercompany creditors must be posted immediately as they are received and paid within 30 days. Head Office finance team and the local finance team should reconcile the intercompany creditor account before the 20th of the following month.

6.12 Other liabilities

The transactions below should be considered as other liabilities due to its nature and characteristics. These transactions should not be recorded in the Statement of Income and Retained Earnings.

- Project Accruals

- Accrued expenses including salaries
- Deferred income
- Corporation tax payable
- Sales tax control
- Withholding tax control

6.13 Equity and reserves

6.13.1 Equity

Where possible, all subsidiaries and branches must be 100% owned by Adam Smith International UK or one of its delegated companies. Local regulation with regard to shares and ownership must be met. Any new registrations should be discussed and signed off by the Adam Smith International Legal team.

6.13.2 Reserves

Profit reserves will accumulate over time. Each country office must refer to the Adam Smith International reserves and profit distribution policy for guidance regarding the accumulation and distribution of reserves.

6.13.3 Template and examples

ANNEX 4: Reserves and Profit Distribution Policy

7. Statement of Income and Retained Earnings (Income Statement)

7.1 Revenue recognition

To ensure all Adam Smith International accounts are consistent and uniform, all accounts (other than those specifically requested to be on a cash basis by the donor, law or standard), must be prepared using an accrual basis of accounting as laid down on IAS 1.27, which requires that any entity prepare its financial statements, except for cash flow reasons, using the accrual basis of accounting.

- The accruals basis of accounting considers the timing of income and expenses, matching them when they occur
- International Financial Reporting Standards uses the principle of accrual basis which recognises transactions when they occur and not when funds are received or paid out.

Income is recognised in the Financial Statements to the extent that Adam Smith International is legally entitled to the income and the amount can be quantified with reasonable accuracy. Income, including donation and grants, should be recognised where there is entitlement, certainty of receipt and the amount can be measured with sufficient reliability. Income should be recognised when the following are met, not simply when cash is received:

- Entitlement – the company should have entitlement to the income.
- Certainty – there should be reasonable certainty of receipt
- Measurement – the item can be measured monetarily with reasonable certainty

7.1.1 Deferred income

Deferred income represents the amount of cash received before a contract is completed. Since contract obligations have not yet been completed, it is not yet income. The following circumstances indicate when income should be deferred:

- The donor specifies that the grant or donation must only be used in future accounting period; or
- The donor has imposed conditions which must be met before the organisation has unconditional entitlement; or
- Income is included to the extent of completion of the donor contract. This is generally equivalent to the sum of relevant expenditure incurred during the year and any related contributions towards overhead costs.

Deferred incomes are liabilities of the organisation because they should be paid back to the donor if contract obligations are not fulfilled in the future.

The following diagram set out the steps to determine which portion of revenue is recognised in the current financial year and which portion is deferred.

Step 1	Identify the **contract**.	▪ Single contract ▪ Combined contract ▪ Contract modification
Step 2	Identify the **performance obligations** in the contract.	▪ Goods or services that are distinct ▪ A series of distinct goods or services
Step 3	Determine the **transaction price**.	▪ Variable consideration ▪ Time value of money ▪ Non-cash consideration ▪ Consideration payable to customers ▪ Collectability
Step 4	**Allocate** the transaction price to the performance obligations in the contract.	▪ Allocation based on stand-alone selling price ▪ Allocate discounts ▪ Allocate variable consideration
Step 5	**Recognise** revenue when (or as) the entity satisfies a performance obligation.	▪ Control ▪ Over a period of time ▪ At a point in time

Figure 1 Steps to determine which portion of revenue is recognised in the current financial year and which portion is deferred.

7.1.2 Classes of revenue

- **Professional fees:**

  Professional fees serviced to clients are recognized on accruals basis – on the date of invoice or where the contractual fee has reasonably been assessed to be accrued (i.e. in the case of no invoice).

- **Reimbursable expenses (project expense):**

  Relate to expenses incurred by the local entity on behalf of a project whose contract is signed by the parent company. Reimbursable expenses incurred by the company are recognised on accruals basis. Revenue will be recognised on a historical basis.

- **Inter-company management fees:**

  Based on services rendered from one Adam Smith International entity to another or otherwise group sub-contract agreements.

- **Gifts and donations:**

  This will be treated as income and applicable tax applied. However, specific usage and expenditure of gifts and donations must be shown

- **Interest on bank balances and deposits:**

  These are recognised on the date of credit from the bank (cash basis).

- **Income on disposal of assets** is recognised on accrual basis upon disposal of an office asset. Disposal of a project asset would be credited to the project accounts.
- **Royalties:**

  Royalties shall be recognised according to the substance of the relevant agreement and shall be on accrual basis
- **Dividends:**

  Dividends shall be recognised when the right to receive payment is established.
- **Other income** is recognised when reasonably applicable on accrual basis.

7.2 Expenditure recognition

Expenses are recognised when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

Expenses are recognized in the period in which related income is recognised.

- Accrued Expense

  An accrued expense is recognised before cash is paid. Expenses should not be accrued based on the budgeted amounts but on the costs that have already been incurred or expected to be paid as a result of an obligation.
- Deferred Expense

  These are expenses that have been paid for a future period. Deferred expense refers to an item that will initially be recorded as an asset but is expected to become an expense over time and / or through the normal operations of the business.

All expenses are recognised on a monthly accrual basis for countries with a registered corporate unit and on a cash basis for project offices (through an RPS).

Separate project expenditure analyses shall be maintained to track and monitor expenditure. The maintenance of these analyses will depend upon the terms, nature and applicability of each independent project. These analyses will thus be referred to us:

- Billing listings: A separate pre-invoice report with details of all expensed charged to a project before actual invoicing.
- Burn rates: A separate report that shows expenditure performance of the project in relation to the project budget.

7.2.1 Classes of expenditure

All country level expenditure will be clustered within the following sets of expenditure:

Table 5 Sets of expenditure

Main class	Sub-class	Class basis
Office budget costs	Staff costs	Costs charged to the country team for business development and team building related costs. All team costs must be budgeted and approved through the annual budgeting cycle.
	Office cost	Costs charged to country platform office costs. They related to costs associated with operations of the office. All office costs must be budgeted and approved through the annual budgeting cycle.
	Salary Costs	Costs relating to staff salaries for the platform / country. All salary costs must be budgeted and approved through the annual budgeting cycle.

Project costs	Pass through	These are non-fee project related costs. All costs must be budgeted and approved through the project contract document. Refer to the project budget for specific cost details.
	Fees	These are all fee related project costs. All costs must be budgeted and approved through the project contract document. Refer to the project budget for specific cost details.
	Staff salary utilisation	Is staff time chargeable to the project. All staff time chargeable to the project must be approved through the project contract document in line with Staff Returns Policy. Refer to the project budget for specific cost details.
Reimbursement expenses	Project costs Corporate overheads	These are costs incurred by a subsidiary or branch on behalf of a project on a contract signed between the parent and the client. The subsidiary therefore incurs these costs and requests for reimbursement from the parent through an appropriate inter-company invoice. The parent thereon allocates these costs to the appropriate project cost category for on-ward billing to the client. Reimbursement expenses could be pass-through, fees or salary utilisation costs. Reimbursement of expenses extends to corporate costs, allowing for expenditures made on behalf of the company using personal funds, followed by reimbursement from the corporate budget.
Centralised Costs	Entertainment, Travel, Accommodation & Subsistence, Social Impact – ESG Staff Training/Learning	This type of cost require budgeting and approval from the Executive Team. Travel, ESG and entertainment expenses will be allocated to the Centralised Corporate Costs project, subject to Executive Team approval. Staff training and learning expenses require a business case, which must be approved by the line manager and submitted for evaluation by the Executive Team. These costs will be allocated to the P&T Training project.

7.3 Corporate Costs / Overheads

Overheads comprise of expenses related to corporate (non-project) costs within the country. All expenses within this category must be approved through the formal budget process.

Table 6 Budget categories and cost definitions for corporate costs

Major Budget Category	Cost Definition
Staff costs	Salaries, contractors' cost, and benefits
Facilities & Utilities	Platform security costs, contracted leased costs, rates & taxes, electricity, office consumables
Travel & Accommodation	Flight, hotels, meals, taxis
Professional fees	Audit fees, accounting fees, legal fees, business development
Communication	Internet, phones, stationery, printing, publications, subscriptions
Finance charges	Bank charges, interest
Depreciation	Depreciation on all asset types
Insurance	Building and office insurance, professional indemnity, public liability
Material, Software and Equipment	Non-capital equipment/material, software subscriptions, repairs and maintenance for equipment and software
Fines & Penalties	Charges imposed as a consequence of non-compliance with financial regulations, contractual obligations, or legal requirements (typically non-budgeted costs)
Other Corporate Costs	Publications, subscriptions, marketing, workshops

7.4 Staff costs

Team costs comprise of expenses related to corporate (non-project) costs within the country and particularly relating to business development, marketing and support services. All expenses within these categories must be approved through the formal budget process.

Table 7 Budget categories and cost definitions for team costs

Budget Category	Cost Definition
Staff Costs	
Salary costs	○ Payroll and bonus
Other Staff Costs	○ Staff benefits (Pension, medical insurance, staff benefits, expat costs) ○ Recruitment costs ○ Contracted staff cost
Internal entertainment	Include costs for internal entertainment on account of business development. Such us: ○ Team meals and drinks ○ Business development lunches and dinners

7.5 Salary and Benefits administration

7.5.1 Policy

Payroll documentation should be prepared clearly showing a list of all employees with Gross, Tax, Net calculations, allowances and contributions as applicable

Each Director of Region must authorise the payroll on a monthly basis. It is the responsibility of the local Finance Manager to ensure any salary advances are deducted from the salaries on a timely basis.

All signed contract documentation should be securely stored in a designated digital repository. Specifically a filed copy of the appointment letter or any more recent letter updating remuneration should be filed and checked as corresponding to the payroll.

All Salary Communications should state the Gross Salary Annual value.

7.5.2 Salary and benefits

Salaries and benefits shall be accrued on a monthly basis as analysed within the payroll. Salary and benefits shall constitute the following:

- Basic pay
- Defined allowances
- Statutory defined contribution as by law. These deductions are jurisdiction specific could include;
  - Social security contribution

- Income tax contribution
- Retirement benefit contributions

- Pay as you Earn (PAYE). The company will withhold and remit PAYE (income tax) to the relevant revenue authority.

7.5.3 Payments for staff salaries

Salaries will be paid in the agreed currency as per staff contracts. The local payroll team will prepare payslips which will be issued to respective staff at the end of the payroll process. Monthly staff salaries must be paid out on or before the 26h of each month without delay and posted to Sage Intacct by the 5th working day of each month.

7.5.4 Other salary deductions

Other deductions are items that individual staff has authorised the finance department to deduct directly from their salaries. Such items might include staff loan deductions, external loan deductions, personal savings deduction and other legal schemes and deductions if any.

7.5.5 Tax & Social Security Accounting

Country Directors and local Finance Managers are to ensure all local tax laws are adhered to, and communicated to Adam Smith International local employees. Tax & Social Insurance deductions should be paid on a monthly basis or as per country requirements to the relevant tax authorities. Accounting records should clearly show tax and social insurance calculations.

7.5.6 Tax Exemptions

Each Adam Smith International entity must ensure that all tax liabilities are paid unless a Tax Exemption Certificate has been obtained by the relevant tax authority.

7.5.7 Procedures (has been confirmed with P&T – Iain)

- Payroll computations should be prepared between 24th and 26th of each month for approval.
- The People and Talent team is responsible for maintaining employee and payroll records within the Operating System, including details such as pay scale and bank account information.
- The Executive Team should undertake annual reviews of the pay scales of employees to ensure that they are correct and that fraud and errors are eliminated.
- The People and Talent team should maintain complete and accurate payroll records for holiday and sick leave entitlements. It is the responsibility of line managers to ensure that any utilised leave is accurately recorded in the Operating System (OS).
- The People and Talent team should ensure that staff are aware of the process for requesting and approving holiday or sick leave. Payroll staff should be provided with up to date and accurate information to enable them to ensure that payroll system properly reflects all employee absences.
- The Regional Director (or Lead?) should review and authorise the payroll report in advance of payment being made to ensure that any errors, duplicate payments or omissions are corrected.
- Where possible, payroll staff should make salary / wage payments to staff through direct bank deposits rather than cash or cheques.
- The Head of Regional Finance should review all bank account deposits to ensure that each pay goes to a different bank account.
- The payroll system (excel or software) should be reconciled to the financial ledger on a monthly basis. Any variations should be investigated and the reasons reported to the Director of Region and P&T team. The reconciliation report should be reviewed and signed off by the Regional Finance Manager.

- The Director of Region (or Lead?) should seek to separate payroll preparation, payment and authorisation duties. In smaller Adam Smith International entities where this is not practical, the payroll report should be reviewed and authorised by the Regional Finance Manager prior to payment being made.

7.5.8 Templates and examples

TE10: Staff information register template

7.6 Project costs

In most cases, country offices will make payments that are directly incurred for project implementation purposes and therefore billable to the client. All project costs must be captured to the correct project code and cost code and a clear memo / explanation of the journal noted. The country finance team must obtain all active codes from the Head Office Finance team, or from the project management team.

7.7 Bank charges

Bank charges will be recognised on the date of credit from the bank (cash basis). All bank charges must be supported by a bank statement and bank reconciliation statement.

7.8 Bad debts

Debts will be recognised as doubtful if they remain in the balance sheet for more than 12 months. Upon expiry of the 12 months, all amounts will be classified as doubtful debts

Doubtful debts will be written off upon expiry of a subsequent 12 months period. This expenditure will be recognised in the profit and loss account. All debt write-offs must be approved by the Group CFO.

8. Expenditure and Payments

8.1 Policy

All approved expenses incurred must be in accordance with country individual departmental budget. If a member of staff or associate is unclear as their expense budget, they should contact their head of department.

For expense incurred that can be charged to a client (i.e. on a project) this should follow the contracted guidelines. It is expected that in most cases this will follow the same rules and regulations set out in this document, however if it does not it should be noted that the employee should follow the project contractual guidelines.

The company will reimburse all reasonable and necessary travel and meal expenses incurred during a business trip. All reimbursable expenses submitted must be reasonable and in compliance with local regulations. Taking into account the context and circumstances of the time the most economical means of obtaining transportation, lodging, and meals should be determined and used.

All expenses and payments must be coordinated through the local finance team and approved by the appropriate approving manager as per the approvals matrix.

Each country office must detail its country specific expenditure and payments procedures in line with local circumstance and programme operational context.

8.2 Staff expense claims and advances

8.2.1 Policy

Each country office must have a detailed expense policy within their finance manual.

- All expense claims must be accounted for as soon as possible or at a maximum of 15 working days of return from the field, unless there is specific and justifiable reason approved by the director.
- Advances must be retired in their entirety through receipts or cash returns. All cash returns must be made in the currency in which the advance was issued.
- Outstanding balances should be recovered within two months at a maximum. On the third month, an automatic payroll deduction will be done. For associates, funds will be deducted from their invoices. The finance team must produce an advance report on a monthly basis, showing the movement and behaviour of all advances
- Reference should be made to the expense policy within the staff handbook.

8.2.2 Procedure

- All expense claims must be supported by a properly completed expense claim form. The expense claim form will detail each and every expense and supporting documentation for each expense must be attached.
- Upon receipt of an expense claim form, the budget holder will check all receipts for authenticity against the criteria described below, as well as whether the actual expenditure was in line with the projects or corporate requirements. The expense claim form will then be checked by the local Finance Manager for accuracy and coding. Once approved, the outstanding balance will be cleared / paid.
- When the expense claim form has been approved, the advance register form must then be updated by the country finance team to show receipt vouchers have been obtained, the advance balance cleared and the expenses have been recorded against the staff debtor account.

- It is the local Finance Manager's responsibility to inform the Director of Region (or Project Director) of any advances that have not been accounted for within the stated period.
- It is essential advances are retired on a timely basis (within 15 days of returning to the office).
- The completed expense claim form must include the following:
  - Backup documentation (i.e. receipts – see section below for what is permissible as a receipt)
  - Project and cost centre – Project budget
  - Date of the transaction
  - Reference number (a unique number for each transaction) which the claimant staff member must write on the backup documentation
  - Detailed description of the transaction (i.e. who incurred the expense, what was it for, what period of time did it cover)
  - Amount of the transaction in currency
  - Exchange rate
- Each receipt / invoice must meet the following criteria:
  - The date must be shown
  - The supplier name must be shown
  - Hand written receipts must show the amount in figures and where possible written in words. Stamps or official stationery should be used where possible by the supplier
  - A description of what was purchased i.e. each item purchased (this should provide the information for the description of the transaction required on the accountability form)
  - Any alterations to receipts must be signed for and clearly explained
  - Completion of a Fund Acknowledgement form by any staff member without a signature from the supplier will only be accepted for purchases from street vendors up to a value of e.g. £1.50 per transaction
  - Expenditure for transportation, for which a receipt cannot be obtained, should be documented using the Travel Expense Form
  - If any receipts are lost and it proves impossible to obtain a replacement, a lost receipt form should be used and signed by the individual member of staff and countersigned by the line manager. On the back of this replacement receipt there must be a full explanation of how the receipt was lost and all attempts made to ensure the supplier can re-sign the documentation
- If the conditions above are not met, the expenditure cannot be justified against requisitioned funds and must be repaid in full or will be deducted from the staff members' salary as per conditions set out above

5.9.7 Templates and examples

ANNEX 5: Staff handbook expenses policy

TE12: Certificate of lost receipt

8.3 Staff expense claim authorisation

The employee's or associate's manager must approve all expense / credit card claims. No employee is authorised to approve his / her own, a peer's, or a manager's expense / credit card claim. The manager is responsible for verifying:

- Business purpose

- Expense totals including any foreign exchange conversion
- Supporting documentation and receipts
- Budget availability
- Policy compliance

The following are the approved expense authorisation levels. Refer to the authorisation matrix for the most updated levels of authority. Any delegated authority level within country offices should be appropriately documented and communicated.

8.4 Allowable expenditure and claims

The expenses below will be allowed. It is however understood that these are general guidelines. Country level circumstance must be observed and proper judgement exercised:

- Lodging / Hotel; Hotel reservations should be made in such a manner as to secure the best available rate. Employees are required, whenever possible, to use properties in the Moderate category.
- Meals; Personal meals are defined as meal expenses incurred by the traveller when dining alone on an out-of-town business trip. This expense should be kept to a reasonable value and will vary depending on the local prices and standards. The expectation is that staff will use their common sense when spending on such meals and that approvers of this expense will comment if it is seen that this allowable expense is abused.
- Business Meals Taken with Other Employees; Employees will be reimbursed for business-related meals taken with other employees only in the following circumstances:
  - When a client is present
  - When at least one company employee is from out of town.
  - When, for confidentiality reasons, business must be conducted off company premises
- It should be noted that Head of Team and above may at their discretion take employees members for team building and team related activities that is within their own annual budget guideline.
- Please note that employees will not be reimbursed for entertaining other employees unless there is a direct reporting relationship between them
- Weekend and Late Night Meals and Taxis: If a manager approves working late into the evening or on weekends, employees can be reimbursed for meal receipts, dinner up to £15 and lunch up to £10. A taxi will also be allowed for those who work after 10pm or earlier depending on country specific security profile. Employees must submit actual receipts for reimbursement on the expense claim.
- Entertainment Expenses: Entertaining Clients; Entertainment expenses include events / meetings whereby a business discussion takes place during, immediately before, or immediately after the event. Approval for reimbursement of entertainment expenses can only be granted by department heads and will only be granted if the:
  - Person entertained has a potential or actual business relationship with the company
  - Expenditure directly precedes, includes or follows a business discussion that would benefit the company.
- When entertainment expenses are expected to be incurred and are not budgeted for, prior approval from the CEO or Group FD is required to receive reimbursement
- Telephone Expenses: For those employees who are part of the company mobile phone policy please refer to that for the expectation on its usage. For other employees the following rules apply:
- Business Phone Calls; Employees will be reimbursed when using their personal cellular telephone, calling cards or home phone for business related phone calls, which are reasonable and necessary for conducting business, with an original copy of the bill attached to the expense report form.

- Personal Phone Calls While Travelling; Employees will be reimbursed for personal telephone calls while travelling on business not to exceed £10 / day for international travel.
- Hotel Telephone Usage; use of the hotel phones is discouraged and should only be used as a last resort. To avoid substantial charges added by hotels to telephone bills, employees can:
  - Use a charge / credit card, calling card, public phone or call collect whenever possible
  - Phone from local company offices whenever possible
  - Use a local access number for Internet connections.
  - In all cases, employees are responsible for securing and utilizing the most reasonable long-distance calling option available.
- Miscellaneous Expenses; the Miscellaneous column is designated for expenses that do not fit into the previous categories, yet are directly business related and therefore reimbursable. ONLY the following items can be considered as reimbursable business expenses:
  - Office services (i.e. faxes, copies, overnight delivery / postage)
  - Currency conversion fees
  - Business gifts of reasonable value with prior management approval and in line with the company policy on Bribery and Corruption.
  - Laundry / Dry Cleaning / Suit Pressing for trips exceeding 3 days
  - Seminar fees / training classes with prior approval
  - Subscriptions with prior approval

8.5 Disallowable expenditure and claims

The following items are NOT reimbursable under this policy but not limited to:

- Airline club / Country club membership dues
- Parking tickets or other fines
- Delinquency fees / Finance charges for personal credit cards
- Excess baggage charges without good reason.
- Expenses for travel incurred by companions / family members
- Expenses related to vacation or personal days while on a business trip
- Non-Compulsory insurance coverage
- Excessive mini-bar charges
- Be sure to note that the following will not be reimbursed under any circumstances:
  - Gentlemen's Club membership dues or "expenses"
  - Escort services (neither men nor women)
  - Gambling expenses
- Non-budgeted for programme expenses

8.6 General expense approval process

8.6.1 Policy

All expenses must be properly documented before approval. The general rule is that:

- The expense must be budgeted for either in the corporate office budget or in the programme budgets;
- The expense must be valid and allowable;
- The expense must be properly documented with valid supporting agreements, invoices, receipts and other necessary documentation;
- Managers, Principals and Directors may only authorise expenditure only from their approved budget if the expenses submitted do not aligned with their budget allocation, such expenses should be declined with a clear explanation that the allocation is designated to a different budget;

The expense approval process must demonstrate the segregation of duties. In doing so, the following guiding principles must be demonstrated:

- Each expenditure transaction £50k (or equivalent) or above must have at least two authorising signatures, preferably the budget holder and the local finance team as per matrix approvals;
- Each expenditure transaction below £50k (or equivalent) will be approved by the budget holder as per matrix approvals.

8.6.2 General expense approval procedure

Each country office must set up procedures that provide adequate checks and balances across the approval process taking account the policy standard guideline above. However, the following steps must be demonstrated:

- Receipt of invoices and claims by the responsible person and by finance;
- Verification of invoices/claims by budget holder and finance team;
- Approval of invoices by the budget holder and appropriate approving authority;
- Preparation of a payment ran or list approved by the country finance lead.

8.6.3 Expense documentation requirements

All expense documentation must be within Adam Smith International procurement documentation requirement. Refer to procurement guideline in section 8.7 below.

8.7 General payments approval process

8.7.1 Policy

All payments must be supported by a properly documented approval process. The general rule is that:

- The expense must be verified and approved prior to payments
- The payment process must be properly documented to show appropriate approval on document
- Once payment is approved, then actual bank or cash payment should be made within local banking mandates
- The expense must be valid and allowable
- The finance team must coordinate all payment approval processes

8.7.2 General expense approval procedure

Each country office must set up procedures that provide adequate checks and balances across the approval process taking account the policy guidelines above. However, the following steps must be demonstrated:

- Payment and petty cash vouchers must be raised for payment requisition approval
- Bank payments must be supported by proper electronic transfer documentation
- Payment vouchers (where applicable) must be verified and signed by the appropriate approver
- Once the payment voucher is completed and approved, then bank payments are issued as per bank approval matrix and local banking procedures
- Once the petty cash voucher is completed and approved, then cash payments within the delegated authority matrix can be issued

9. Value for Money

9.1 Policy

The Adam Smith International global procurement manual must be referred to for a detailed guidance on procurement. However;

- Each country must have a detailed procurement policy specific to the circumstances of that country and each programme must prepare programme level procurement policies in line with the unique programme requirements and country guidance.
- All procurement of equipment, vehicles, and services must be done in accordance with the requirements of Adam Smith International's country level policies and procedures and funding agency policies as defined in the programme procurement policies.
- All procurement must demonstrate competitiveness, fairness, transparency and authority, as well as executed through laid down procedures.
- Procurement will be conducted along the following principles:
  - Openness and transparency;
  - Professionalism;
  - Integrity and honesty;
  - Anti-corruption; and
  - Adherence to procedure and administrative practices.

9.2 Basic procedural guidelines for procurement

The following phases should be followed during procurement:

- Identify the funder, the funder-specific procurement rules and regulations, and the Project (or ASI Department) procurement (goods and/or services) requirements; prepare a clear, detailed description of the goods and/or services to be purchased.
- Funding: Determine whether there are sufficient funds in the approved Project or Department budget for the procurement.
- Authority: Determine whether there are any import/export restrictions and if an export license might be required to ensure import/export compliance.
- Consult: For Project or Department procurements, consult with legal and compliance services to determine the best type and mechanism of contract to issue for the procurement and to ensure accurate development of the solicitation package when applicable.
- Compete: Determine Competition Requirement(s), i.e., Micro-Purchase, Small Purchase, Commercial, Full and Open Competition Procurement; or Exemptions to Competition.
- ASI Approvals: In compliance with the Delegation of Authority Policy, refer to the Delegation of Authority Signatory Threshold Authority Matrix for ASI approvals required.
- Funder Approvals: Determine if funder involvement or prior approval in the procurement process is required, ensure prior approvals are obtained, and ensure compliance with the funder involvement requirement as stated in the prime award.
- When applicable, prepare a Solicitation (RFP/RFA/RFQ) with a description of requirements to satisfy Project or Department needs (technical specifications or scope of work) and issue Solicitation after receiving funder

approval of draft solicitation, if required in the prime award. The solicitation should also outline ASI's preferable purchasing policy and how this will impact the evaluation.

- When applicable, ensure the proper receiving and handling of offers/proposals.
- Anti-terrorism Compliance Screening: Run anti-terrorism compliance searches on all prospective bidders prior to review/evaluation of bids.
- Evaluate: When applicable, form a Technical Evaluation Committee and have Committee members sign Non-Disclosure and Conflict of Interest Forms prior to participation. Review/evaluate bids and select supplier(s).
- Document: Prepare Procurement Selection Memo summarising the procurement process and selection process; or prepare the sole source justification memo, as applicable.
- Submit: Prepare comprehensive procurement documentation package to legal and compliance services for review and clearance for procurements with a value of £10,000 or more. If funder submission is required, the review and clearance is required prior to submission.
- Award: Project or Department team works with legal and compliance services to prepare, negotiate and issue the pre- determined contractor agreement and budget with selected supplier(s).
- Management Oversight: The Project or Department team oversees and manages the procurement award/contract to close out, with support from legal and compliance services.
- Modifications: Any changes to a contract must be incorporated as a formal, written modification to the contract.

Procurement Thresholds and Approvals

Procurement of goods and services will be carried out according to thresholds set by Adam Smith International management and approved as detailed below:

Table 8 Thresholds for procurement of goods and services

Amount of Transaction	Minimum Required Actions
£1 - £999	› Except for the purchase of restricted commodities and/or services, no competition is required and no written quotes required. › Invoices and receipts with vendor's information should be kept on file.
£1,000 - £7,999	› Minimum of three (3) written quotes from vendors › Procurement Selection Memo including the Bid Analysis
£8,000 - £24,999	› Create technical specifications and selection criteria › Target vendors and solicit written quotes › Minimum of three (3) written quotes from vendors › Procurement Selection Memo (Please refer to Appendices E and F), including the Bid Analysis

£25,000 - £49,999	Work with legal and compliance services to ensure adequate competition: › Create RFQ/RFP with technical specifications and selection criteria › Target vendors and solicit written quotes › Convene a Technical Evaluation Committee (Members must complete and sign Non-Disclosure and Conflict of Interest Forms › Minimum of three (3) written quotes from vendors › Procurement Selection Memo (Please refer to Appendices E and F), including the Bid Analysis
£50,000 or more	Work with legal and compliance services to issue a Full and Open Competition: › Create RFQ/RFP with technical specifications and selection criteria › Advertise and post publicly RFQ/RFP for a reasonable period of time (at least two weeks) › Convene a Technical Evaluation Committee (Members must complete and sign Non-Disclosure and Conflict of Interest Forms) › Minimum of three (3) written quotes from vendors › Procurement Selection Memo (Please refer to Appendices E and › F) , including the Bid Analysis

8.7.3 Templates and examples

ANNEX 6: Global procurement manual

TE11: Procurement evaluation form template

TE12: Procurement justification memo template

9.3 Annual supplier review

8.8.1 Policy

- Regular suppliers should be reviewed annually to ensure ongoing competitiveness of products / services procured and to ensure that Adam Smith International has sufficient knowledge of the market in which it operates (such as the current market rate for these regular purchases)
- Regular suppliers include:
  - Those who provide an ongoing service (e.g. insurance, internet, telephone)
  - Those who provide goods / services 3 or more time a year (e.g. stationery, printing, training venue)
- A list of regular supplier must be compiled and documented and maintained by the local Finance team.
- A minimum of 3 quotations must be obtained for a set of standard items from all regular suppliers.
- The Procurement Committee must decide on the chosen supplier based on economy (cost), efficiency (quality) and effectiveness (intended purpose).
- The procurement decision should be reference on all future purchases from each regular supplier.

10. Budgets and Forecasts

10.1 Policy

10.1.1 Budgets

- The local office will be responsible for preparing its annual corporate budget for approval by Head Office. The budget will provide a structured and detailed analysis of costs not funded by projects.
- Each project will be responsible of providing their project based budgets in coordination with the local office. The project budget will be managed by the project manager with support from the office finance team.
- Budgeting process will be based on a mix of the methods stated below:
  - Zero based budgeting
  - Incremental budgeting
  - Project based budgeting
  - Capital budgeting

10.1.2 Forecasts

- All projects will be required to prepare their cash forecast for the next month in order to allow for efficient cash management.
- Where the project is dependent on cash receipts exclusively from the UK, it is imperative that each cash forecast is submitted and approved on time
- Project revenue and costs forecasting must be updated monthly by the 10^{th} working day of each month
- Where the project is dependent on the local office, it is imperative that the project manager discusses their cash needs with the local finance team on a monthly basis. The finance team will then prepare appropriate documentation to ensure cash is adequately available and properly managed.
- It is the responsibility of the local Finance Manager to ensure that the Office has adequate funds at all times for smooth operating of the office programmes. Therefore, the local Finance Manager should:
  - Plan the payments that are anticipated (this should be done with reference to the budget and programme activities)
  - Send Expenditure Forecast reports to the program manager.
  - Ensure all intercompany invoices are paid on time
  - Maintain their own understanding on budgetary variances and work to minimise these variances on a forward basis

10.1.3 Templates and examples

ANNEX 7: Finance forecasting guidelines

10.2 Budget monitoring

- Costs incurred against approved project budgets (per Team) must be monitored on a monthly basis. The project manager, working with support of the local finance team, will be responsible for updating of project level budget burn reports.
- Regional Finance Managers in collaboration with corporate Budget Holders, must provide monthly commentary explaining variances between budgeted figures vs. actual for spending. Variances below/above 10% should be investigated and explained. It is expected that appropriate action will be taken to reduce major cost overrun.

11. Project Financial Management

11.1 Policy

- The Country Finance Team as well as Adam Smith International Head Office Finance have an oversight responsibility to oversee project financial performance
- Each project will have its own project level finance policy which must be approved by the country finance team and in line with project finance template.
- All project costs must be charged to relevant project codes and recharged to the relevant donor contracted Adam Smith International Entity (most often Head Office) to allow accurate billing to the client
- It is encouraged that country level finance team inputs should be embedded within projects implemented in-country
- Local tax and regulatory laws must be adhered to with regard to programme operations and financial activity

ANNEX 8: Project financial management template and guide

11.2 Project Structure

- All new project requests must be initiated by the Project Manager and submitted to the Project Accounting team via a Project Kick-Off" meeting. The Project Accounting team will then create the initial project contract in Sage, which will automatically integrate with the Operating System (OS). This will enable Project Managers to establish project structures tailored to meet specific project needs
- The project management can be structured using two primary methods: Fees and Expenses, or Workstreams. Opting for Workstreams offers a preferred ASI approach, as it enhances clarity and presents ongoing project activities more effectively, aligning with budget allocation.
- All external, client contracts (called parent), should start with letter “P” following by a unique six-digit sequence provide by Finance Team. For example, P000048. This procedure ensures uniformity and facilitates efficient tracking and management of contracts.
- For project tracking purposes, each child project will be assigned a unique identifier structured as follows: the parent project number followed by a dash, indicating the type of services provided, and finally, the sequential number of the child project. For example, “P000048-100-10”. Where:
    - 101 – Programme Delivery
    - 102 – Advisory Services
    - 103 –
    - 104 –
    -
- The project name convention requires the inclusion of a three-letter abbreviation denoting the project location delivery, followed by a double colon and the remainder of the project name. This format ensures clarity and consistency across all project documentation and communication channels.
  For Instance: P000048-100-10, PAK: SEED - CORE – Inception.
- All corporate parent contracts will start with C following by a unique six-digit sequence provide by Finance Team. The project name convention requires to specify the name of the team and the purpose of the contract. For instance: C900020-100-06, Finance – UK. This naming structure encompasses all costs allocated to the Finance department in UK entity for approval by the respective budget holder (in this case Group FD).

11.3 Cost allocation to project codes and workstreams

- All costs charged to projects must be on the basis of approved project budgets. The System's Administrator responsible for maintaining account codes in Operating System will ensure that these are linked to the active workstreams. This alignment will provide the most updated list and structure of project.
- Cost categories are organised into distinct workstreams, with approval authority restricted to core staff members exclusively. Each workstream will be assigned to appropriate approvers in accordance with the established ASI approval matrix.
- Once the workstream costs are approved, and purchase order is generated, Project Manger will approve Purchase Order (PO) that will need to be provided to supplier to ensure PO number is stated on all invoices.

11.4 Project office areas of responsibility

- Specific Areas of Responsibility in Project Offices
  - Project Manager (note, reference is to whoever is most senior in the office) is ultimately responsible for assets and finances of his / her office
  - Project Manager is ultimately responsible for all supporting documentation
  - Project Manager is ultimately responsible for developing budgets / forecasts
  - Project Manager is ultimately responsible for sending accurate and complete monthly accounts to the head office
  - Project Manager is ultimately responsible for line management of his / her office's lead Finance staff member
- Specific Areas of Responsibility of Head Office
  - Review monthly requests (budgets) for cash to be transferred to field office bank accounts
  - Review field office spending against budget / re-forecast – variances investigated and reviewed with the Programmes
  - Where field office suppliers are limited, large items should be procured centrally from Head Office
  - Internal audit visits to field offices to test compliance with finance procedures and supporting documentation
  - There is a functional line of reporting (technical support) from field-based finance staff to Head Of Finance at Head Office
- Monthly Head Office procedures – Project Finance Management
  - Check coding of transactions – make sure the accounts are meaningful

- Check spending against agreed budget for the month line by line
- Check bank transfers from head office are recorded as project office receipts
- Check cash withdrawals from the bank account are recorded as receipts into the petty cashbook

11.5 Donor reporting

- In instances where Country Programmes have more than one donor, separate records should be kept for each donor
- This process begins with Adam Smith International's project budget template and ends with individual donor reports. All income and expenditure transactions must be recorded to a project code
- On occasion, donors will request their own formats to be utilised, in these cases the London Finance Team will utilise a donor mapping tool to map Adam Smith International's project codes to the donor specific codes
- The Project Manager must ensure the Donor reports reflects the information held in the accounting system and that this can be fully reconciled

11.6 Asset administration

- The local office will provide space and administration support to the management of all programme assets.
- The programme team must prepare a programme level asset register which must be reviewed and approved by the local finance team.
- The asset register must be updated on a monthly basis.
- Asset verifications must be performed on a quarterly basis.

11.7 Financial assurance

The country team will exercise fiduciary oversight over programme financial management in the country. This will involve performing financial checks, training and capacity building as well as review of key programme financial policies, reports and processes.

12. Reporting to Head Office

12.1 Policy

Each country office must ensure all statutory financial and legal reporting requirements are met as per local law. In addition, all Head Office reporting requirements must be met as per Head Office reporting schedule. The finance team will issue this schedule on a monthly basis.

12.2 Reporting requirement

For the purpose of ensuring effective internal control and an assurance environment, the following reports must be prepared on a monthly basis:

- Monthly RPS, where applicable
- Bank Reconciliations
- Petty Cash count
- Intercompany invoice
- Staff Debtor balances (outstanding advances)
- Advance Register
- Asset register
- Monthly management accounts, containing the following:
  - Corporate and Project performance
  - Schedule of balance sheet item
  - Staff utilisation report

12.3 Month-end processes and due dates

At a minimum, each month the following must be produced or facilitated by the local country office:

Working date of every month	Process
2nd	All staff timesheets should be submitted for line manager approval.
2nd	All associate invoices should be submitted.
2nd	All RPS and bank statements should be submitted to Head Office.
3rd	All invoices will be captured by finance for approval.
5th	All approvals must be given by project managers.
5th	Intercompany invoices submitted to Head Office.
10th	Proformas must be completed by project managers in collaboration with PAT.
10th	Re-forecast completed for all projects.
13th	Generating Reports for Corporate Overheads Team to Budget Holders.
15th	PDs sign-off of variance commentary for Project Performance Analysis.
15th	Commentary returns from Budget Holders for Corporate Overheads.
20th	Consolidated MIR pack for ET.
23rd	Client approval of sales invoices, if not already received.

12.4 Month-end accounting and closure

The monthly accounting tasks listed below are the responsibility of the local Finance Manager. The controls described in the sections above should ensure that all the necessary information is available to complete these tasks.

Before accounting closure of the month, the following tasks must be completed and signed off:

- Bank reconciliation
- Petty cash counts
- Account Payable reconciliation
- Accounts receivable reconciliation
- Advances reconciliation
- Staff utilisation report
- Asset movement and register report
- Other substantive balance sheet account reconciliations
- Monthly management report

12.5 Activities immediately after local registration of Adam Smith International

Once Adam Smith International has been registered in country the following activities and actions must be performed. The Country Director or Lead should ensure these recommended actions are implemented.

Activity	Rationale
Procure services of a tax and legal adviser	› A local tax adviser would support the company to understand local tax and regulatory requirement better. The adviser will also provide a good link to understanding and engagement of local revenue agencies in order to understand and meet their requirements. › A legal adviser would support the company to understand and navigate the legal requirements including filing company returns, reviewing contract templates, preparing documentation for immigrations, etc.
Prepare an in country tax and business report	› An internal report to assist internal staff to understand the tax, employment and immigration code of your country. Ideally this report would be prepared prior to registration as a country scoping exercise before any tender for work in this country is submitted.
Set up an accounting system	› To ensure all financial data and activity is captured
Procure banking services and set up a banking administration system	› To ensure that the company has appropriate and legal bank services in-country › To ensure necessary approval and authority for banking is approved and implemented
Procure insurance providers	› All assets must be insured › In some cases, cash in custody must also be insured

Recruit an competent, experience and trustworthy accounting team	› Depending on the need of each country and project, ensure you have the appropriate level of accounting staff.
Set up contracting templates and guides	› Ensure appropriate contracting templates for local and expat staff are available for in-country contracting › Ensure appropriate contracting guide is available to enable in-country staff to know what contract to apply on what context, at local level
Prepare relevant policies	› In country policies, including ○ Financial management policy ○ Administration and logistics ○ P&T / Handbook ○ Procurement
Set up month reporting templates and processes	› Financial reporting › P&T reporting › Risk reporting

13. Audits

13.1 Corporate year-end financial audits

It is a requirement for all Adam Smith International country offices to appoint a reputable firm of qualified auditors to carry out an annual external audit.

Appointment or change in external auditors should only be made with the approval of Adam Smith International Head Office via the Group Finance Director.

Corporate external audits will be conducted every first quarter of the year. All audits must be signed off by end of February of the following year.

13.1.1 Terms of Reference

As a minimum, the auditors will need to:

- Confirm whether Adam Smith International management has kept proper accounting records during the period
- Determine whether the financial statements agree with the accounting records and comply with International Accounting Standards
- Obtain confirmation and reconciliation of the entity's bank accounts
- Express an opinion on whether the entity's Financial Statements are a true and fair representation of the entity's activities, assets and liabilities.
- Produce a detailed management letter specifying observations and recommendations based on the audit findings.

13.1.2 Preparation

Refer to the external audit guide preparation checklist for additional guidance. The pre-audit checklist and all accompanying schedules / reconciliations must be signed-off by finance before commencement of an external audit.

13.1.3 During the audit

- Ensure Auditor requests all information through the local Finance Manager
- Ensure staff are available to answer any audit queries / provide supporting evidence to ensure audit issues are cleared as they arise
- Monitor the auditor's work through an end-of-day briefing to ensure key findings are pointed out to Restless Development management as early as possible so they can be responded to

The final draft Audit Report must be sent to Adam Smith International Head Office for final approval before any sign-off in-country.

13.2 Project external financial audits

Projects audits are also an important reporting and assurance mechanism. The project teams are responsible for coordinating all programme external audits for their projects. Project teams should not accept an external audit Terms or Reference or Scope of Work prior to being reviewed by the Finance and Risk team.

There are several guides to support project and country finance teams in the preparation of an external audit. The project team will work closely with the country office, while the Finance and Risk team will provide oversight and guidance with regard to management and closure of an external audit. In the first instance, the responsible manager and finance lead should read the external audit checklist and guide. When in doubt, consult the Project Director and the Project Accountant Manager

13.3 Mini-internal audits

13.3.1 Policy

- All country offices should receive a mini-internal audit at least twice a year
- Field office mini-internal audits should be conducted by Director of Region or Project Directors
- The same staff member should NOT conduct two consecutive mini-internal audits in the same location

13.3.2 Checklist for Management

- It is expected that each year a minimum of two visits will be conducted in each country office of Adam Smith International by a senior member of staff. When planning your review, you should review the last visit report to ensure new elements are being incorporated in your work.
- Findings should be fed back to the Director of Region (Project Director) , Senior Programme Managers and Finance Team.
- The checklist below summarises a number of areas where reviews or spot checks can be undertaken across a range of operational and financial areas.

Cash

- Spot check the amount of cash in the safe in the office and agree the balance within the accounting system plus any transactions in the current period not yet entered into the accounts system (usually recorded on an excel spread sheet). A spot check is conducted with no notice to the field office. You ask to count the cash in the safe, make a note of the amount and then compare it with the balance in the accounting records plus the transactions recorded in the RPS that have not yet been processed.

Bank

- Review the cheque book to make sure that no cheques have been taken out of sequence and that all stubs have been completed with details of payee, date and what the payment is for.

Supplier Quotes

- Check that the tax registration numbers / company registration numbers are different and that the quote is not from the same proprietor / address
- Visit the supplier if you are in the area and check out the premises to make sure that they are genuine
- Get a comparable quote unofficially (this doesn't need to be in writing unless the price is significantly different to the ones that have been obtained for Adam Smith International - you are just looking to benchmark). Perhaps use your own name rather than Adam Smith International when talking to staff.

Advances

- Review a random sample of Advance retirements:
    - Check that all the receipts are there
    - Check additions

- Check none of the vouchers have been altered e.g. 3 to an 8
- Check that the Advance is just for one person. If it is for more than one person (not recommended) ensure that the person is named and that they are not the person authorising

Approvals

- Review a random sample of payment approvals:
  - Ensure all payments are signed for
  - Review signatures and check that they are different, query any that look the same
  - Check to make sure no-one is signing for anyone else without documented prior approval
  - Check a sample of signatures for the same person over a period of time to make sure they are consistent

Fixed Assets (obtain a copy of the register first)

- Walk around the office and query assets in cupboards, store rooms and under desks. Why are they there and not in use?
- Check a sample of assets to ensure it has a unique Adam Smith International serial number
- Ask to see small and valuable assets such as cameras and projectors and test them to make sure they are working and have a Adam Smith International unique serial number
- Look at the register and ask to see one of the laptops listed. If it is not available ask who has it and what it is being used for.

13.4 Internal audits

Adam Smith International has an independent Internal Audit team that is appointed to conduct various audits per fiscal year as per the annual reporting timetable.

The internal audit team will assess compliance to the Global Finance Policies & Procedures, and the adequacy of internal controls to assist with preparations for the annual external audits of each Adam Smith International entity. From time to time other areas will be commissioned as part of the internal audit including looking at cost effectiveness of the programmes, finance staff structures and management, specific donor reporting and so on.

The Internal Auditor will produce a report for the Adam Smith International Executive Team and Board of Directors. This report will contain detailed recommendations to be agreed upon with the Director of Region and or Project Director and include agreed timelines of the action points.

13.4.1 Templates and examples

ANNEX 9: Programme audit guide

ANNEX 10: Programme audit checklist

ANNEX 11: External audit guide for Project Managers

14. Tax Administration and Planning

14.1 Policy

- All country offices are required to adhere to local level tax and regulatory requirements
- The country office Finance Team, working with the global Finance and Risk team, will prepare a specific country level tax report detailing the tax and regulatory requirement in that country and recommend how best Adam Smith International can adhered to these requirements.

14.2 Tax health checks

These will be done annually (ideally mid-year) to ensure proper tax administration of the company. The company tax advisors will take on this duty to ensure consistency and the auditors will do their audit at the beginning of the year.

The health check will cover the following areas:

- Corporation tax
- Withholding tax
- Value Added Tax (VAT)
- Local taxes
- Project specific tax exemptions

14.3 Administration of corporation tax

Corporation tax is a direct tax imposed by a jurisdiction on the income or capital of Adam Smith International's legal entities. Many countries impose such taxes at the national level, and a similar tax may be imposed at state or local levels. These taxes may also be referred to as income tax or capital tax. Generally, the tax is imposed on net profits.

All country office must file an income tax return annually by 30 September following the end of the tax year or earlier depending on local requirements.

All tax returns must be properly documented and submitted to Adam Smith International Head Office finance team.

14.4 Administration of company withholding tax

A withholding tax, also called a retention tax, is an income tax to be paid to the government by country offices (as the payer of income) rather than by the supplier (recipient of the income). The tax is thus withheld or deducted from the income paid to the supplier. In most jurisdictions, withholding tax applies to employment income.

Typically the withholding tax is treated as a payment on account of the recipient's final tax liability, when the withholding is made in advance. It may be refunded if it is determined, when a tax return is filed, that the recipient's tax liability to the government which received the withholding tax is less than the tax withheld, or additional tax may be due if it is determined that the recipient's tax liability is more than the withholding tax.

If applicable, these taxes should be withheld by country offices and remitted to the revenue authority on a monthly basis.

14.5 Income tax

Payroll taxes are taxes imposed on employers or employees, and are usually calculated as a percentage of the salaries that employers pay their staff. Payroll taxes generally fall into two categories: deductions from an employee’s wages, and taxes paid by the employer based on the employee's wages. The first kind are taxes that employers are required to withhold from employees' wages, also known as withholding tax, pay-as-you-earn tax (PAYE), or pay-as-you-go tax (PAYG) and often covering advance payment of income tax, social security contributions, and various insurances (e.g., unemployment and disability).

Each country office must have a clear policy on how to administer income tax for associates and staff. As a rule,

- All in-country staff taxes will be managed through payroll system
- All associate and consultants resident in-country will be managed through a withholding tax system

14.6 Administration of VAT or Sales tax

Value added tax is:

- a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. However, if the annual turnover of this person is less than a certain limit (the threshold), which differs according to the Member State, the person does not have to charge VAT on their sales.
- a consumption tax because it is borne ultimately by the final consumer. It is not a charge on businesses.
- charged as a percentage of price, which means that the actual tax burden is visible at each stage in the production and distribution chain.
- collected fractionally, via a system of partial payments whereby taxable persons (i.e., VAT-registered businesses) deduct from the VAT they have collected the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved.
- paid to the revenue authorities by the seller of the goods, who is the "taxable person", but it is actually paid by the buyer to the seller as part of the price. It is thus an indirect tax.

Registration requirements as well as exemption and zero rated supplies of VAT varies from country to country. Professional advice should be sought by country offices to determine Adam Smith International’s VAT status and requirements in their respective countries.

If applicable, VAT returns should be submitted revenue authority on a monthly basis and any resulting liabilities should be settled.

14.7 Project specific tax exemptions

In some cases projects will receive tax exemptions via agreements between donor agencies and recipient governments. The Finance and Risk team should be informed of this and professional advice should be sought by country offices to determine the applicability to Adam Smith International local entity.

14.7.1 Templates and examples

EX15: Country level tax report example

15. Related Head Office Policy References

The Adam Smith International Group policies below should also be referenced along with this guide

- Central Staff Human Resources Handbook
- Staff and Associate Governance Handbook

16. ANNEXURES

ANNEXURES

Forms, templates and source books

Examples

Policies and guide

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