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## Good financial grant practice — Requirements

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## Foreword

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This Draft African Standard was prepared by the ARSO Technical Harmonization Committee Number 12-2 on Financial Services (ARSO/THC 12-2)

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## Introduction

The objective of this Draft African Standard for Good Financial Grant Practice (GFGP) is to standardize, simplify and strengthen the financial governance of grant funding. For grantors, they can use the standard as a minimum requirement for their grantees. For grantees, they can claim compliance with this African Standard to support applications for grants from grantors. This draft African standard establishes a consistent approach to the management of grants throughout the grant life cycle, for the benefit of grantors and grantees.

Potential benefits of this African standard include, but are not limited to the following:

- a) reduce the cost and administration time for both grantors and grantees;
- b) reduce the multitude of audits and financial assessments that grantees have from different grantors;
- c) increase the confidence of grantors to fund directly to grantees;
- d) reduce the risk of corruption, bribery and fraud; and
- e) enable targeted financial capacity building by grantors

This draft African Standard is designed to codify and provide requirements on established good practice. It is a quality standard and not an accounting standard. The GFGP standard provides a common framework for how grantees shall financially manage grants. It provides details of the requirements, specifications and criteria to be applied, to implement good financial grant practice.

Grantors and grantees are very diverse in nature, and range from:

- a) very large to very small;
- b) straightforward to very complex;
- c) short to longer term in nature;
- d) operating in safe to risky environments;
- e) having different levels of risk they are willing to accept;
- f) governmental to private foundations and individual entities;
- g) national to regional to international in nature; and
- h) mature to new and emerging.

This African standard is designed to be inclusive of all the above by having four tiers from bronze to platinum. Table 1 is illustrative only and gives some indication of the types of organizations that might fit into each tier.

The tiers are cumulative from bronze through to platinum. Therefore, for an organization to achieve silver compliance, it will be required to comply with all of the requirements within the bronze and silver tiers. For an organization to achieve gold compliance, the organization will be required to comply with all of the requirements within the bronze, silver and gold tiers. To achieve platinum compliance, the organization will be required to comply with all of the requirements in this African standard.

The four tiers have been designed to encourage grantees to progressively strengthen their financial grant practices as their organization develops.

The four tiers also enable grantors to manage their exposure to risk as some grantors may choose to specify that grantees comply with a certain tier, or parts of a tier, depending on the size or nature of the grants that they manage. Grantors may, after an assessment, decide to award the grant, even if the

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grantee does not meet their requirements and may mitigate their risk by putting in place additional financial controls, or provide capacity strengthening funding to bring the grantee up to the required level.

This African standard addresses the seven principles of good financial grant practice, which are:

1. accountability;
2. stewardship;
3. compliance to standards;
4. transparency;
5. viability;
6. integrity; and
7. consistency

**Table 1— Organization activity indicative of GFGP tiers**

<b>Tier</b>	<b>Description – the organization is likely to:</b>
<b>Bronze</b>	<ul style="list-style-type: none"><li>• only operate within a region in a Country</li><li>• be a sub-grantee of a gold level organization carrying out part of their grant activity; and/or</li><li>• have few programmes and grantors.</li></ul>
<b>Silver</b>	<ul style="list-style-type: none"><li>• operate either regionally or over a number of regions within a country;</li><li>• have more than a few programmes and/or complex programmes;</li><li>• be a sub-grantee of a gold level organization carrying out part of their grant activity; and/or</li><li>• be a local Non-Governmental Organization (NGO).</li></ul>
<b>Gold</b>	<ul style="list-style-type: none"><li>• be large with multiple complex programmes or with more complex programmes in which they are both grantees and grantors (i.e. manage sub-grants);</li><li>• manage activities across international boundaries, receive funding from a variety of grantors and often sell services to raise more funding; and/or</li><li>• be an International Non-Governmental Organization (INGO), national NGO, research institution or university.</li></ul>
<b>Platinum</b>	<ul style="list-style-type: none"><li>• have a mission that requires longer term financial sustainability; and/or</li><li>• be an INGO, NGO, established research institution, university, charity with the expectation of long term income (i.e., funding that covers a significant portion of its operational costs) that is regularly renewed by the same grantor or has its own income or investments.</li></ul>

In turn, these principles are supported by four key pillars of good financial management, which, if correctly applied, will provide the evidence to support compliance with good financial grant practice. These are:

1. Internal controls
2. Record keeping
3. Planning
4. Monitoring

Further detail on both the principles of good financial grant practice and four key pillars of good financial management can be found in Annex A.

## Good financial grant practice — Requirements

### 1 Scope

**1.1** This Draft African Standard specifies requirements to be met by grantees (the organization) in order to demonstrate good financial grant practice (GFGP). These requirements are categorized into four main practice areas accordingly:

**1) Financial management:**

- a) planning and budgeting;
- b) income management;
- c) expenditure management;
- d) property, plant and equipment management;
- e) cash, bank and treasury management;
- f) inventory management;
- g) travel expenses;
- h) sub-grantee management;
- i) financial management systems; and
- j) financial reporting.

**2) Human resources:**

- a) human resource management and payroll; and
- b) staff development.

**3) Procurement:**

- a) planning; and
- b) contract management.

**4) Governance:**

- a) grant management and compliance;
- b) audit; and
- c) risk management.

**1.2** This draft African standard does not cover:

- the activities between grantor and grantee;
- assessment;
- non-financial elements of project management ;

- research management; and
- external audit skills.

**1.3** This African standard is for use by all organizations of any type, size and complexity. In particular, it will be of interest to those individuals responsible for managing the risk of a financial grant or the management of grants within grantee organizations. It will also be of interest to grantor organizations as a tool to specify grant award conditions.

**NOTE** It is intended that the correct application of this African standard will help with:

- a) accountability;
- b) the reliability of information; and
- c) improving transparency and trust.

## 2 Normative references

The following documents are referred to in the text in such a way that some or all of their content constitutes requirements of this document. For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies.

There are no normative references in this document.

## 3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

### 3.1

#### **access**

ability, right, or permission to approach, enter or use

### 3.2

#### **accountability**

willingness, ability and obligation of an organization, or function within an organization, to be liable and responsible for all its activities and disclose the results in a valid, accurate and transparent manner

### 3.3

#### **accrual basis**

where income is recognised when it is earned and expenses recognised when they are incurred

**NOTE 1** See related definitions for cash basis, expenses, expenditure and costs.

**NOTE 2** In accrual basis reporting, expenditure can occur prior to the expenses being recognized in financial reports and income can be recognized even if the cash has not been received.

### 3.4

#### **asset**

item of property owned by the organization which has value and is available over a period of time to help deliver projects, activities, grants or contracts

### 3.5

#### **assessment**

periodic review of performance against set objectives

### 3.6

#### **award**

act of giving, making or approving

### 3.7



**award letter**

formal document from the grantor to the grantee which details the terms and conditions for which the grant has been awarded

**3.8****back-up**

copying and safe storage of electronic records in use to be restored in case of any data loss

**3.9****bids**

a set of documents issued by the procuring entity, inviting offers (bids, proposals or quotations) for the selection of suppliers, contractors or service providers to fulfill specific requirements

**3.10****bribery**

offering, promising, giving, accepting or soliciting of an undue advantage of any value (which could be financial or non-financial), directly or indirectly, and irrespective of location(s), in violation of applicable law, as an inducement or reward for a person acting or refraining from acting in relation to the performance of that person's duties

**3.11****budget**

estimate of the cost of a project, grant, activity or contract, including the assumptions used in calculating the estimate, the basis of the expenditure, and the specified period

**3.12****capacity building**

planned development of an organization's skills, management, governance, infrastructure and other capabilities

**3.13****capital grant income**

amount of money received to cover the costs of acquiring, operating and maintaining an asset

**3.14****cash**

money in the form of physical coins, banknotes or any 'cash equivalents' in the form of electronic payments

NOTE This would cover cash distributed via mobile devices or a preloaded card

**3.15****cash basis**

accounting method where income is recognised when the cash is received and expenses are recognised when the cash is paid

NOTE 1 This is as opposed to accruals basis (see 3.3).

NOTE 2 For cash accounting there is no difference between expenses and expenditure.

**3.16****code of conduct**

set of rules outlining specific behaviours that are required or prohibited as a condition of on-going employment

NOTE A code of conduct applies the code of ethics to a host of relevant situations. A particular rule in the code of ethics might state that all employees will comply with the law; a code of conduct might list several specific laws relevant to different areas of organizational operations, or industry, that employees need to comply with. The code of ethics might state that the organization is an equal opportunity organization and the code of conduct might forbid sexual harassment, racial intimidation or viewing inappropriate or unauthorized content on company computers.

**3.17**

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## **code of ethics**

set of principles to guide employee behaviour and decision making

NOTE When faced with ethical dilemmas or debatable situations, what is articulated in the code of ethics can help guide decision making. The code of ethics is sometimes referred to as a value statement.

## **3.18**

### **competent person**

individual with sufficient skills, knowledge and experience of the specific tasks to be undertaken and the risks which the work will entail

## **3.19**

### **contributions in kind**

non-monetary resources received or provided by the organization

## **3.20**

### **corruption**

abuse of entrusted power or privileges for private gain

NOTE 1 Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish. This evil phenomenon is found in all countries—big and small, rich and poor—but it is in the developing world that its effects are most destructive. Corruption hurts the poor disproportionately by diverting funds intended for development, undermining a government's ability to provide basic services, feeding inequality and injustice and discouraging foreign aid and investment. Corruption is a key element in economic underperformance and a major obstacle to poverty alleviation and development.  
(UN-ODC, 2004)

NOTE 2 Corruption can be classified as grand, petty or political, depending on the amounts of money lost.

## **3.21**

### **costs**

expenditure or expenses that are incurred to carry out the grant, contract or activity, or to run the organization

## **3.22**

### **cost allocation**

methodology used to allocate expenditure or expenses to specific activities such as a project, grant, contract or activity

NOTE Cost allocation is often used where there is no direct one to one match of the cost incurred to the job or task.

## **3.23**

### **depreciation**

allocation of the cost of an asset to expense over the useful life of the asset

NOTE The useful life might be the length of the grant if there is no use for the asset once the grant has been completed. However, it might be longer than the length of the grant if the organization has a use for the asset after the grant has ended.

## **3.24**

### **disposal**

act of removing an asset from use within an organization by selling, discarding or donating an asset, whether or not it has been depreciated over its useful life

## **3.25**

### **domestic travel**

movement of a resident within one's own country's borders

## **3.26**

### **expenditure**

payment or disbursement of cash

NOTE Where the payment and the use of the item being purchased is within the same period, such as employment, then expenses will equal expenditure for that item (see 3.27).

**3.27****expenses**

cost that was necessary in order to carry out the grant, contract, project or activity during the time period indicated in the financial report

NOTE All expenses are also expenditure. An example of the difference between an expense and expenditure is when accrual accounting is being used. A company makes an expenditure of \$255,500 to purchase equipment. The expenditure occurs on a single day and the equipment is placed in service. Assuming the equipment will be used for seven years, under the straight line method of depreciation the cost of the equipment will be reported as depreciation expense of \$100 per day for the next 2,555 days (7 years of service with 365 days each year).<sup>1)</sup>

**3.28****financial management**

efficient and effective management of money in such a manner as to accomplish the objectives of the organization

NOTE Financial management includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization and is a key responsibility for the top management and Governing Board.

**3.29****financial report**

record of the financial activities and financial position for either the whole organization, individual activities or grants or groups of grants as required by key stakeholders

NOTE 1 Key stakeholders include grantors and governing boards.

NOTE 2 Financial reports are usually produced for internal management decision making, or for monitoring financial performance, and might differ in format and principles from financial statements.

**3.30****financial statements**

periodic records of the financial activities and financial position of the organization produced in the format and to the principle of applicable financial reporting standards'.

NOTE These are usually audited to both financial reporting standards and/or government regulations.

**3.31****financial management system**

system that records transactions on an individual basis and manages costs, expenditure, payment processing, budgeting and reporting

NOTE The system can be:

- a physical or electronic cash book;
- an excel spreadsheet; or
- a computerized system either off the shelf or bespoke that links all accounting data related to historical financial transactions as well as all cash transactions of payment and receiving, linked with budgets.

**3.32****forecast**

financial projection of how the organization, project, contract or activity will perform within a given period

NOTE 1 The organization should perform the projection against the budget.

NOTE 2 The forecast could be for a grant or activity or for the whole organization for a specified period.

**3.33****fraud**

act or course of deception to gain unlawful or unfair advantage

NOTE This could include an intentional concealment, omission, or perversion of truth, or inducement of another party to part with some valuable item or surrender a legal right.

**3.34****governing board**

<sup>1)</sup> SOURCE: [www.accountingcoach.com/blog/difference-expense-expenditure](http://www.accountingcoach.com/blog/difference-expense-expenditure)

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group of individuals appointed to jointly oversee the management of the whole organization thereby safeguarding the interests of the organization

### 3.35

#### **grant**

amount of money provided by the grantor to a grantee for a particular purpose

### 3.36

#### **grantee**

organization or individual that has been awarded a grant from a grantor

### 3.37

#### **grant conditions**

restrictions and limits to the use of grant income

### 3.38

#### **grant cycle**

end to end process of acquiring, receiving, managing and closing down a grant

### 3.39

#### **grant income**

revenue and/or cash received by a grantee as a result of implementing the grant

### 3.40

#### **grantor**

individual or organization that awards a grant to a grantee

### 3.41

#### **indirect cost recoveries**

method for recovering indirect costs that is incurred by the grantee in delivering a grant, activity, project or contract

NOTE Generally, cost recoveries are recovering the costs of any given expense.

### 3.42

#### **indirect expenditure**

cost that cannot be directly matched to an individual activity, grant, project or contract

NOTE Indirect costs usually include overheads and can be fixed or recurring.

### 3.43

#### **internal auditor**

a qualified professional who audits and inspects the accounting records and practices of the organization to provide information to the top management and governing board

### 3.44

#### **inventory**

raw materials, work in progress or finished goods that will be used in a future period to undertake the activity for which the grant or income is provided

NOTE This use could be in the:

- ordinary course of business of delivering the activity for which the grant or income is being received;
- process of production for activity for which the grant or income is being received;
- form of materials or supplies to be consumed in the production process; or
- rendering of services.

### 3.45

#### **invitation to bid**

process of seeking out prospective contractors to carry out a specific activity or project

**3.46****invitation to tender**

a) for open tendering: make the information on the procurement publicly available, including related assessment criteria; and

b) for restricted/selective and negotiated/limited methods: publish information on how to qualify in a readily available medium within a timeframe and in a manner that would reasonably allow eligible suppliers to apply.  
(OECD, 2009)

**3.47****monitoring**

supervising activities in progress to ensure they are on-schedule in meeting the grant conditions or other objectives and performance targets

**3.48****organization**

group of persons structured and managed to meet a need or to pursue collective goals

NOTE 1 Organizations are likely to have a management structure that determines relationships between the different activities and the members, and subdivides and assigns roles, responsibilities, and authority to carry out different tasks.

NOTE 2 Organizations are likely to be legally registered entities with not-for-profit status.

**3.49****organogram**

diagram that shows how an organization is structured

**3.50****overrun**

continue beyond or above an expected or allowed time or cost

**3.51****per-diem**

daily allowance which is paid to the traveller from which they will pay their expenses

**3.52****period**

number of weeks, months, years that relate to the content of the report or activity

NOTE The period can be for part of the whole lifecycle of a grant, project contract or activity. Typically, a period is monthly, quarterly and annually.

**3.53****procedure**

set of actions that is the official or accepted way of doing something

NOTE A procedure may include any processes relevant to the activities it covers.

**3.54****process**

a systematic series of written actions directed to some end

**3.55****procurement**

overall process of acquiring goods, civil works and services which includes all functions from the identification of needs, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration through the end of a services' contract or the useful life of an asset

**3.56****programme**

set of related grants, projects or activities with a shared purpose or long-term aim

NOTE These might be funded from a range of grants and funding sources.

## 3.57

### **project**

a unique set of processes consisting of coordinated and controlled activities with start and finish dates, undertaken to achieve project objectives.

## 3.58

### **policy**

written principles and guidelines, approved by top management or the governing board, to guide an organization's decisions and actions

NOTE 1 A policy may include any procedures relevant to the activities it covers.

NOTE 2 It is intended that the processes, procedures and policies required by this African standard are cumulative. Where an organization has a policy covering a particular activity, it might not require a separate procedure which relates to the same activity. Where an organization has a procedure it might not require a separate process which relates to the same activity.

## 3.59

### **quotes**

a request for quotation (RFQ) whose purpose is to invite suppliers into a bidding process to bid on specific products or services. RFQ generally means the same thing as IFB (Invitation For Bid). An RFQ typically involves more than the price per item.

## 3.60

### **reporting cycle**

recording, processing and communicating financial or other information relating to a certain period of time

## 3.61

### **reserves**

funds that an organization has set aside from surpluses produced in previous years or from endowments, gifts or legacies

## 3.62

### **risk management**

process of identifying and forecasting possible risks, together with the identification of procedures to avoid or minimize their impact

## 3.63

### **risk register**

tool for documenting risks to the organization, project, grant or activity and the actions to manage each risk

## 3.64

### **segregation of duties**

where a task is divided into stages and different persons are required to be responsible for the different stages involved in completing the task

NOTE The separation by sharing of more than one individual in one single task is an internal control intended to prevent fraud and error.

## 3.65

### **sub-grant**

grant awarded by a grantee to another organization to carry out part of their activity or project

## 3.66

### **sub-grantee**

organization that is awarded a sub-grant

**3.67****top management:**

person or group of people who directs and controls an organization at the highest level

NOTE Top management has the power to delegate authority and provide resources within the organization.

**3.68****travel allowance**

payment made to an employee to cover accommodation, food, drink or incidental expenses they will incur during business related travel

NOTE In some organizations, travel allowance is sometimes referred to as travel advance

**3.69****whistle-blowing**

act of drawing attention to perceived illegality, wrongdoing or misconduct within the organization

NOTE Corruption, fraud, bullying, health and safety violation, cover-ups and discrimination are common activities highlighted by whistle-blowers.

**4 Claims of compliance**

An organization seeking to claim compliance with this African standard shall clearly state the level at which they are claiming compliance in accordance with the following:

- a) For bronze compliance, the organization shall comply with all the requirements within this African standard that fall under a 'bronze compliance' heading;
- b) For silver compliance, the organization shall comply with all the requirements within this African standard that fall under a 'bronze compliance' heading, plus those that fall under a 'silver compliance' heading;
- c) For gold compliance, the organization shall comply with all the requirements within this African standard that fall under 'bronze compliance', 'silver compliance' and 'gold compliance' headings;
- d) For platinum compliance, the organization shall comply with all of the requirements within this African standard.

NOTE It is intended that the processes, procedures and policies required by this African standard are cumulative. Where an organization has a policy covering a particular activity, it might not require a separate procedure which relates to the same activity. Where an organization has a procedure it might not require a separate process which relates to the same activity.

**5 Financial management****5.1 Planning and budgeting****5.1.1 Bronze compliance**

**5.1.1.1** The organisation shall have a process for planning and preparation of budgets

**5.1.1.2** The organization shall prepare a budget for each grant or grant application.

**5.1.1.3** The organization shall prepare different budgets for all activities of the organization.

NOTE This includes both activities funded by the grantor, and any other activities funded from other sources.

**5.1.1.4** The organization shall identify a competent person to be responsible for the preparation of the budget.

**5.1.1.5** The organization shall have a process for amending budgets to reflect changing circumstances as allowed by the grant conditions

### **5.1.2 Silver compliance**

**5.1.2.1** The organization shall have a procedure for planning and preparation of budgets. This shall include at least the following:

- a) who is responsible for preparing the budget.
- b) when it is prepared
- c) who it is approved by
- d) what information is required and where it is obtained from
- e) what assumptions are made

**5.1.2.2** The organization shall assign top management or board to approve the budget.

**NOTE** Depending on the requirements of each grantor, written approval of changes to the budget should be obtained in advance of any expenditure being undertaken that was not within the originally agreed budget.

**5.1.2.3** Where a budget is prepared for a grantor who requires reporting in a different currency from the currency used for expenditure, the assumptions about exchange rates shall be clearly detailed and it shall be clear how any potential exchange gains or losses will be dealt with before the budget is approved.

**5.1.2.4** The organization shall have a procedure for preparing the budget in the currency of expenditure and convert it to the grantor's currency.

**5.1.2.5** The organization shall have a procedure for reviewing and amending budgets to reflect changing circumstances as allowed by the grant conditions.

**5.1.2.6** The organization shall have a procedure on indirect cost recovery which include at least the following:]

- a) how indirect costs are calculated for each grant
- b) how indirect costs is to be budgeted for in the grants
- c) how indirect costs are mapped to grantors cost definitions and then recovered from the grant where allowable.

**NOTE** Grantors typically allow a fixed percentage for indirect costs and this is then included in the grant. The organisation should understand how much of their indirect cost this funds.

### **5.1.3 Gold compliance**

**5.1.3.1** The organization shall have policies that set out how grants are to be applied for budgeted, recorded, reported and monitored.

**5.1.3.2** The organization shall prepare a consolidated budget which covers all grants, projects and activities including operational activities and which includes planned grant income.



**5.1.3.3** The budget shall be prepared taking into account the different currency denominations of each grant, i.e., the currency(ies) in which the budget item is to be invoiced and/or paid.

**5.1.3.4** Actual expenditures shall be compared to the budget at least quarterly (or at a higher frequency if required by the grantor) for monitoring purposes.

**5.1.3.5** The organization shall prepare a cash-flow forecast which includes each grant, and update this regularly to reflect the budgets that are approved and any changes made due to on-going budget monitoring.

**5.1.3.6** The organization shall have a policy to check that where the grantor provides cash advances, these are not used in ways which would not comply with the grant conditions.

**5.1.3.7** The organisation shall have a policy on indirect cost recoveries including where they are not fully recovered from the grant, how they are funded.

#### **5.1.4 Platinum compliance**

**5.1.4.1** The organization shall comply with the requirements given in 5.1.1, 5.1.2 and 5.1.3.

**5.1.4.2** The organization shall produce revised budgets or forecasts either within the year, annually or over multiple years.

**5.1.4.3** The organization shall have a three to five year plan and reserves strategy that is approved by top management and the governing board.

### **5.2 Income management**

#### **5.2.1 Bronze compliance**

**5.2.1.1.** The organization shall issue and keep uniquely numbered receipts for each item of income.

#### **5.2.2 Silver compliance**

**5.2.2.1** The organization shall have a clearly defined procedure for the recording of income. The procedure shall include at least the following:

- a) the definition of income, if cash or non-cash and how it applies to the organization;
- b) how income will be treated if it is carried across a reporting period, or end of the financial year;
- c) how to report on income on either cash or accruals or a combination basis thereof;
- d) descriptions of non-grant income, e.g. interest, return on investments or fees and subscriptions; and
- e) how the income reported in the financial management system is reconciled to the bank account or cash received.

**NOTE** It should therefore be possible for the organisation to prepare reports which break down the total of grant income into all the separate grants received and by both cash and non-cash income.

**5.2.2.2** The organization shall operate a financial management system that requires grant income to be recorded with a unique reference for each grant received.

**5.2.2.3** The organization shall have procedures to receive income into either pooled or individual grantors specified bank accounts.

**5.2.2.4** The organization shall have a financial management system that records each grant's income that will enable reporting against the requirements of the grantor.

## 5.2.3 Gold compliance

**5.2.3.1** The organization shall have a policy that defines contributions in kind which includes at least their definition, their valuation, recording, reporting and approval process.

NOTE Contributions in kind are also often referred to as gifts in kind.

**5.2.3.2** The organization shall have a policy that includes managing income in a foreign currency.

NOTE This policy should include how the organization will manage cash received in foreign currencies and how gains and losses are accounted for and managed.

**5.2.3.3** The organization shall have a policy concerning how income will be classified to meet both grantors and internal requirements.

NOTE Classifications can include, but might not be limited to, grant income or capital or revenue grant income, interest from prefunded cash balances and membership fees or subscriptions.

## 5.2.4 Platinum compliance

**5.2.4.1** The organization shall comply with the requirements given in 5.2.1, 5.2.2 and 5.2.3.

**5.2.4.2** The organization shall have a financial management system that is able to produce reports that satisfy grantor income recognition, internal reporting as well as generally accepted accounting principles.

## 5.3 Expenditure management

### 5.3.1 Bronze compliance

**5.3.1.1** The organization shall have a process to ensure payment vouchers and / or their respective supportive documentation are attached from being paid more than once.

NOTE This can be achieved by clearly marking all payment vouchers and their respective supporting document to show that they are 'PAID' upon payment, or by implementing controls within a financial management system.

**5.3.1.2** The organisation shall have a process that ensures that all expenditures and expenses are entered into a financial management system.

**5.3.1.3** The organization shall have a process to prevent grantors' funds from being used for expenditure outside of the grant conditions

### 5.3.2 Silver compliance

**5.3.2.1** The organization shall have a procedure to allocate indirect expenditure in line with the grantor's requirements. This shall include how these costs are calculated and if fully or partially recovered

NOTE The basis could be based on timesheets, level of effort, and percentage of overall expenditure

**5.3.2.2** The organization shall have a segregation of duties procedure as to who can initiate and approve expenditure and payments from the bank accounts

**5.3.2.3** The organization shall have a procedure to ensure payment vouchers and supporting documentation shall be reviewed and approved by designated top management within the organization before payment.

**5.3.2.4** The organization shall have a procedure which will determine if an identified item to be purchased requires a purchase order

**5.3.2.5** The organization shall have a procedure to ensure that if a purchase order is made then the organization shall compare invoice quantities and price with the terms indicated before each payment is made.

NOTE At least 3 quotations should be obtained before an order is made so that prices can be compared.

### **5.3.3 Gold compliance**

**5.3.3.1** The organization shall have a policy to prevent grantors' funds from being used for expenditure outside of the grant conditions.

**5.3.3.2** The organization shall have a policy that sets out how to calculate the direct and indirect costs of a project, grant, contract or activity. The policy shall include at least the following:

- a) who the policy applies to
- b) principles for the cost allocation

NOTE These could be a reference to a grantor's terms and conditions for allowable costs or broader if required.

- c) definitions of types of costs

NOTE These can be directly allocated; indirectly allocated; overheads/ administration etc.

- d) methodologies to be applied
- e) implementation process
- f) risks
- g) monitoring
- h) oversight Board or committee
- i) links to other relevant policies

NOTE Policy could be a 'costing of activities' or 'cost allocation' policy and may be part of another policy e.g. budgets.

**5.3.3.3** The organization shall have a policy that states who has the authority to:

- a) requisition expenditure;
- b) authorize expenditure;
- c) authorize payments;
- d) act as a bank signatory;
- e) approve and sign contracts and other commitments; and
- f) approve and issue organizational bank cards, including credit cards and other electronic payment methods.

NOTE 1 Such a policy is often described as a scheme of delegation or a framework for delegated authority.

NOTE 2 Requests for expenditure requiring prior approval should be in writing and include an explanation justifying the expenditure.

NOTE 3 The reviewer should check the names of approvers, dates, designations and signatures appearing on the payment vouchers.

**5.3.3.4** The organization shall have a policy on expense or cost transfer between projects or grants with at least the following:

- a) who authorizes the transfer;
- b) who can transfer; and
- c) documentation required

**5.3.3.5** The organization shall have a policy for monitoring open purchase orders.

**5.3.3.6** The organization shall have a policy for monitoring if purchase orders have been made after the invoice has been received.

### **5.3.4 Platinum compliance**

The organization shall comply with the requirements in 5.3.1, 5.3.2 and 5.3.3. There are no additional requirements.

## **5.4 Property, plant and equipment**

### **5.4.1 Bronze compliance**

**5.4.1.1** The acquisition, recording and disposal of buildings, vehicles, telecommunication, computing and other equipment by the organization shall be in line with the agreed terms and conditions of the grant agreement.

**5.4.1.2** The organization shall have measures to physically secure its buildings, vehicles, telecommunication, computing and other equipment.

**NOTE** Such safe keeping and security can for example be through keeping assets in secure locations and employing competent personnel to safeguard the location.

**5.4.1.3** The organization shall keep all registered title deeds and other ownership documents safe from theft, fire and other risks.

**5.4.1.4** The organization shall maintain vehicles, telecommunication, computing and other equipment in working condition.

**5.4.1.5** The organization shall maintain a list of buildings, vehicles, telecommunication, computing and other equipment,

### **5.4.2 Silver compliance**

**5.4.2.1** The organization shall maintain a list of buildings, vehicles, telecommunication, computing and other equipment, that at least includes the following:

- a) acquisition date and cost, including purchase and any costs until asset is commissioned or additions thereafter;
- b) unique reference or serial number;
- c) department/division/section;
- d) person responsible;
- e) whether the asset is owned by the organisation or leased or on loan from a third party;
- f) source of funds; and
- g) location of asset.

**NOTE** This includes assets that are donated

**5.4.2.2** The organization shall have a definition for an asset and a value below which the asset is not added to the list (see 5.4.2.1).

**5.4.2.3** The organization shall have a procedure to determine the frequency of asset verification.

**5.4.2.4** The verification procedure shall record the status and condition of the asset.

**Note** Each stock item should have an assigned status to enable to identify items that are available for use by the organisation or are under investigation. Examples are: Available, Restricted, On Hold, and Rejected.

**5.4.2.5** If an asset is not able to be verified, this discrepancy shall be investigated and resolved and the list updated.

**5.4.2.6** The organization shall have a procedure that determines if an asset should be insured and if a maintenance or service contract is to be purchased.

**5.4.2.7** The organization shall label and tag all vehicles, telecommunication, computing and other equipment such that it can be reconciled to written records.

**5.4.2.8** The organization shall have a procedure for approving the use of telecommunication, computing and other equipment. This shall include at least the following;

- a) user's name and employee number;
- b) purpose and location of the use; and
- c) date of issue and return

**5.4.2.9** The organization shall have a procedure for approving the use of vehicles, which shall include, at least the following;

- a) user's name and employee number;
- b) purpose and destination of the use;
- c) validity of the user's driving licence;
- d) date of issue and return; and
- e) distance travelled.

**5.4.2.10** The organization shall have a procedure on the disposal of vehicles, telecommunications, computing and other equipment. This shall include at least the following:

- a) the item number;
- b) the rationale for the sale or disposal;
- c) the method of disposal, such as sale, donation, other;
- d) who approved the disposal;
- e) in case of sale, the price obtained;
- f) the name of the recipient of the disposal; and
- g) the date and entries of write-off from the register.

### **5.4.3 Gold compliance**

**5.4.3.1** The organization shall have a fixed asset policy, which includes capitalization threshold, useful economic life, depreciation, sale and disposal.

**5.4.3.2** The organization shall have a policy that clarifies which assets shall be covered by insurance.

**5.4.3.3** The technical and economic rationale for purchasing new assets shall be documented for all asset acquisitions.

**5.4.3.4** The organization shall have a policy to determine the frequency of asset verification.

#### **5.4.4 Platinum compliance**

**5.4.4.1** The organization shall comply with the requirements in 5.4.1, 5.4.2, and 5.4.3.

**5.4.4.2** In addition the organization shall have an impairment policy where the value of the asset in the financial management system is recorded at its economic value to the organization.

### **5.5 Cash, bank and treasury management**

#### **5.5.1 Bronze compliance**

**5.5.1.1** The organization shall determine the maximum and minimum amount of cash required to maintain normal operations.

**5.5.1.2** The organization shall ensure that cash is securely held.

NOTE Security measures should reflect the environment in which the organization is operating.

**5.5.1.3** The organization shall ensure that any cash that is distributed to an individual is recorded with at least the following information:

- a) date of distribution;
- b) person to whom the distribution is made;
- c) signature of the recipient and of the person distributing the cash; and
- d) the purpose of the distribution.

**5.5.1.4** Expenditure receipts shall be retained by the individual and the organization.

**5.5.1.5** The organization shall ensure that when cash is distributed to an individual, that individual provides supporting documentation and any remaining cash on their return to the organization.

**5.5.1.6** The organization shall have a process which defines the frequency of cash counts. The cash count process shall check that the opening balance, cash distributed, cash returned and additional cash provided, equals the amount of cash held. Any differences shall be recorded and reported.

**5.5.1.7** The organization shall have a bank account that is in its legal name. Where the bank account is not held in the organization name, the bank account holder shall be agreed with the grantor.

**5.5.1.8** The organization shall record all cash received and payments made ensuring all transactions can be individually identified.

NOTE All cash received should be recorded immediately and promptly banked.

**5.5.1.9** The organization shall ensure that there is security in place for cash in transit.

**5.5.1.10** The organization shall have a secure location to store all bank documentation including checks, and access to this location shall only be for authorized individuals.

**5.5.1.11** The organization shall have authorized individuals for signatory and review of the bank accounts, cash books and cash float.

NOTE The organization should have and retain a bank confirmation of authorized individuals.

**5.5.1.12** The organization shall be able to extract and report all transactions in the currency that the expenditure is incurred in

NOTE The above may be recorded in an off system spread sheet.

**5.5.1.13** All bank accounts shall be periodically reconciled to the financial management system

NOTE Bank accounts should be reconciled at least monthly, however often these are undertaken weekly or even daily depending on the risk exposure.

## **5.5.2 Silver compliance**

**5.5.2.1** Any amendments and closing of bank accounts shall be done by the top management through a resolution.

**5.5.2.2** Where the grantor requires a dedicated bank account, the organization shall have procedures to ensure that only expenditure relating to that grantor's activity is paid from that bank account.

**5.5.2.3** The organization shall have procedures that require at least two signatories to make a payment, sign a check or transfer cash from one bank account to another.

**5.5.2.4** The organisation shall have a procedure to ensure the person responsible for the grant shall be a signatory to the bank account where there is no established finance function that provides services to the grant activity.

**5.5.2.5** The organization shall have procedures to ensure computers that have access to on line banking facilities are secure, with up to date anti-virus, spyware and firewall software.

**5.5.2.6** The organization shall have a procedure for recording the names and roles of personnel who can access any on line payment system. These shall include at least the following:

- a) a list of the named individuals: and
- b) the frequency with which the list is reviewed

**5.5.2.7** .The organisation shall have procedures that ensure there is a clear segregation of duties regarding the cash and bank accounts. These shall include at least the following :

- a) how the authorization of orders for goods and services is separated from those responsible for making and authorizing payments to suppliers.
- b) how the cash payment records are reviewed by a more senior person than the person issuing cash and recording cash payments.

**5.5.2.8** The organization shall have procedures that define the credit worthiness of each bank which will be used before a bank is utilized.

**5.5.2.9** The organization shall have procedures that include at least the following:

- a) which role is responsible for cash;
- b) a periodic count and reconciliation by two individuals;
- c) a limit to the amount of cash that is held;

- d) a limit to the amount of cash that is advanced to an individual;
- e) defines what type of expenditure is allowed to be purchased using cash;
- f) when expenditure from cash is entered into the financial management system;
- g) how checks are to be managed, including use of sequential numbers, retaining voided checks;
- h) how the cash is to be transported to and from locations and banks; and
- i) how incoming cash is received, receipted and banked.

**5.5.2.10** Where the grantor funds a grant in a currency that is different to the currency in which the expenditure will be incurred, the organization shall prepare the budget in the currency of expenditure and convert it to the currency of the grant. The exchange rate assumptions and basis shall be recorded as part of the budget documentation.

**5.5.2.11** The organization shall have a procedure that includes at least the following:

- a) how foreign exchange rates are determined for both actual and budget;
- b) how any foreign exchange gains or losses are to be recorded and managed; and
- c) how foreign exchange rates are recorded and reported in budgets and financial reports.

**NOTE** This might require conversion from one or more currencies into the currency provided by the grantor.

### **5.5.3 Gold compliance**

**5.5.3.1** The organization shall have a cash, bank, treasury and foreign exchange policy or policies which include at least the following:

- a) opening, closing and making amendments to bank accounts;
- b) investing cash balances;
- c) management of any borrowing facilities;
- d) risk management of monetary assets and liabilities including at least:
  - (i) interest rate risk;
  - (ii) foreign exchange risk including how gains and losses are accounted for and managed;
  - (iii) inflation risk;
  - (iv) level and management of counterparty risk; and
  - (v) process for selection of the person responsible for making surprise counts of cash who does not have access to the cash;
- e) banking contingency management;
- f) protection against money laundering;
- g) the definition and use of financial instruments;
- h) segregation of responsibilities: and



- i) use of external service providers.

#### 5.5.4 Platinum compliance

**5.5.4.1** The organization shall comply with the requirements in 5.5.1, 5.5.2 and 5.5.3.

**5.5.4.2** The organisation's cash and treasury policy shall include at least the following:

- f) policy statement; and
- a) principles of cash and treasury management

### 5.6 Inventory management

#### 5.6.1 Bronze compliance

**5.6.1.1** The organization shall define what constitutes inventory.

**5.6.1.2** The organization shall keep up to date records of all inventory.

**NOTE** Records at least should have information on inventory received, inventory issued and balances of inventory in storage. Records should have correct description, date, number of units and unit of measure.

**5.6.1.3** The organization shall store all inventory in a suitable storage environment with regard to temperature, humidity, security and risk of damage and deterioration from adverse weather conditions.

**5.6.1.4** There shall be physical locks and safeguards for all inventory stores to mitigate theft, damage and physical loss.

**5.6.1.5** The organisation shall have a document that records the amount and value of the inventory being issued, the signature of the recipient and of the person distributing the inventory.

#### 5.6.2 Silver compliance

**5.6.2.1** The organisation shall carry out periodic inventory counts and reconcile to both the inventory lists and relevant financial information in the financial management system.

**NOTE** The frequency of the stock take and reconciliations should be based on risk exposure

**5.6.2.2** The organization shall have a procedure for issuing inventory to users.

**5.6.2.3** The organization shall record, at least the inventory received, inventory issued and balances of inventory in storage. These records shall list correct description, date, number of units and unit of measure.

**5.6.2.4** The organization shall have procedures for recording inventory that users in the organization have returned to storage.

**5.6.2.5** The organization shall have procedures for de-recognition of inventory either due to obsolescence or expiry.

**5.6.2.6** The organization shall have procedures to be able to report the remaining cost and quantity of all inventory at the end of each month. This shall include at least the following:

- a) inventory issued;
- b) who the inventory was issued to;
- c) the cost and quantity of the inventory issued; and
- d) the location of the inventory issued.

**5.6.2.7** The organization shall have an inventory management procedure including at least the following:

- a) how the inventory is valued;
- b) how inventory is received and receipted, including who will inspect and accept the inventory being delivered;
- c) how inventory is issued and/or sold;
- d) minimum inventory levels;
- e) internal reporting and frequency, including status of inventory levels and write-offs;
- f) obsolescence and damage; and
- g) governance over the inventory.

**5.6.2.8** The inventory procedure shall also clarify how the organization will consider the value of insurance cover for inventory.

**5.6.2.9** The organization shall have procedure on the disposal of inventory, including at least the following:

- a) the item number;
- b) the rationale for the disposal;
- c) the method of disposal such as sale, auctioning, donation or destruction;
- d) who approved the disposal;
- e) in case of a sale, the sale price;
- f) the name of the recipient of the disposal; and
- g) the date and entries of the write off from the inventory record.

**5.6.2.10** The organization shall maintain records sufficient to determine the amount of unused inventory on hand at the termination of their grants.

**NOTE** In this inventory count, the organization should verify the existence, use, and need for the inventory.

### **5.6.3 Gold compliance**

**5.6.3.1** The organization shall have a policy on classifying assets either as inventory or fixed assets.

**5.6.3.2** The organization shall have an electronic inventory control system, to facilitate timely updating of movements of inventory and production of periodic records for inventory checks.

**5.6.3.3** The organization shall have a policy that includes how the inventory is valued, minimum and maximum stock levels and frequency of stock checking depending on risk and governance.

**5.6.3.4** The organization shall have a policy that states its methodology for issuing inventory.

**5.6.3.5** The organization shall have a policy for identifying and reporting any inventory that is unrecorded, missing or is past its useful life.

**5.6.3.6** The organization shall appoint a competent person who has the responsibility of keeping, counting and maintaining the current inventory.

**5.6.3.7** The organization shall include within the inventory policy how it will consider the value of an insurance cover for inventory.

**5.6.3.8** The organization shall have a procedure to report any loss or abnormal consumption patterns of inventory items to top management for monitoring and necessary action.

#### **5.6.4 Platinum compliance**

**5.6.4.1** The organization shall comply with the requirements in 5.6.1, 5.6.2 and 5.6.3.

**5.6.4.2** The organization shall have a formal review and reporting mechanism for inventory management which involves conducting on-going monitoring activities

**NOTE** These mechanisms should provide management with regular and up-to-date information on the status of the inventory in stock.

### **5.7 Travel expenses**

#### **5.7.1 Bronze compliance**

**5.7.1.1** The organization shall have a process for making payments for per-diem, travel advances and review of receipts and subsequent reimbursement of expenses for approved official travel.

#### **5.7.2 Silver compliance**

**5.7.2.1** The organization shall have a travel procedure that clearly indicates permissible travel expenses and allowances for both domestic and international travel. The procedure shall include at least the following:

- a) application and approval process for all travel;

**NOTE** This may include seeking prior approval for international travel from the grantor, if the grant conditions requires this.

- b) per diem rates or travel allowances;
- c) any restrictions or advice that travellers shall be aware of in relation to travel insurance requirements or the organization's health and security policies for travellers;
- d) accounting requirements for per diem or travel allowance;
- e) any additional grantors' requirements or restrictions which go beyond the organization's procedures;

**NOTE** For example, the requirement to use certain airlines, or to retain and file boarding passes.

- f) that advances for travel expenses are documented and accounted for after return from travel; and
- g) that no one member of the organization's staff has more than one advance at any given time without approval.

#### **5.7.3 Gold compliance**

**5.7.3.1** The organization shall have a travel and expenses policy, which includes at least the following:

- a) how employees make travel arrangements;
- b) restrictions on the class or method of travel;

- c) who approves expenses;
- d) how per diem and travel allowances are set;
- e) which expenses require a receipt and what procedures to follow when there is no receipt;
- f) use of vehicles and hired cars;
- g) use of organization's bank or credit cards;
- h) under which circumstances entertainment costs can be claimed, and any relevant restrictions and grantor requirements; and
- i) requirements for submission of a travel report after each trip.

### 5.7.4 Platinum compliance

**5.7.4.1** The organisation shall comply with requirements given in 5.7.1, 5.7.2 and 5.7.3.

## 5.8 Sub-grantee management

### 5.8.1 Bronze compliance

**NOTE** The organizations awarding sub-grants shall be compliant with at least the Gold Tier requirements of this African standard

### 5.8.2 Silver compliance

**NOTE** The organizations awarding sub-grants shall be compliant with at least the gold tier requirements of this African standard.

### 5.8.3 Gold compliance

**5.8.3.1** The organization shall request applications or proposals that clearly define the work to be accomplished by the sub-grantee under the grant conditions.

**NOTE** The organization should have participated and co-authored the proposal document for the partnership or consortium which clearly defines the work of the sub-grantee.

**5.8.3.2** The organization shall document their rationale for the selection of sub-grantees.

**5.8.3.3** The organization shall have a policy that assesses their sub-grantees financial capacity to manage the sub-grant in line with their own policies and procedures as well as the grantor. The policy shall include at least the following:

- a) who the policy applies to.
- b) the principles for how the assessment will be undertaken
- c) the types of risks being assessed including:
  - i) the country risk rating in terms of fraud and corruption as per a global index
  - ii) the sub grantee's capacity to financially manage grants as assessed against this African standard,
  - iii) foreign exchange
  - iv) cash advance
- d) the size of the sub-grant and the cumulative value of sub-grants to the same organisation;

- e) the cumulative value of sub-grants to any one country;
- f) the nature of the activity;
- g) the profile and nature of the budgeted expenditure;
- h) historical experience with sub-grantee; and
- i) the mitigating controls to be implemented depending on the outcome of the risk assessment.

**5.8.3.4** The organization shall have a policy for managing contracts and managing contract performance.

**5.8.3.5** The organization shall have a policy that requires any sub-grantee to fulfil the grant conditions. This policy shall also include procedures for applying sanctions for non-compliance with grant conditions.

**5.8.3.6** The organization shall have a policy for when a sub-grant has been completed. This shall include at least the following:

- a) filing and recording the final sub-grant expenditure report;
- b) final payment or recovery of surplus payment;
- c) that the sub-grant unique code is deactivated to new expenditure and any remaining expenditure cleared to zero;
- d) final sub-grant audit or review as required by grantor; and
- e) report to grantor as required by grantor.

**5.8.3.7** The organization shall have a policy to protect the organization's relationship with the grantor that includes, at least the following:

- a) their legal status;
- b) that all sub-grants will have an award letter and sub-grantee agreement which is signed by them and the sub-grantee;
- c) that the sub-grantee award letter and sub-grantee agreement will include the ultimate grantor's conditions, or where it is not possible, the risks are recorded and approved by top management or the governing board.;
- d) how the sub-grantees are to be selected and the due diligence process to be undertaken before a grant is awarded.

**5.8.3.8** The organization shall have a list of, and supporting documentation for, all active sub-grantees.

#### **5.8.4 Platinum compliance**

**5.8.4.1** The requirements given in 5.8.1, 5.8.2 and 5.8.3 shall apply.

**5.8.4.2** The organization shall prepare consolidated reports (both actual and budget) for all sub-grants and include them within their own organizations reporting.

### **5.9 Financial management systems**

#### **5.9.1 Bronze compliance**

**5.9.1.1** The organization shall have suitable storage for supporting documentation.

**5.9.1.2** The organization shall have a cashbook to record transactions which agrees to the bank accounts.

**5.9.1.3** The organization shall have separate bank accounts for each funding source if required by the grantor.

### **5.9.2 Silver compliance**

**5.9.2.1** The organization shall have procedures for the prompt identification, escalation, resolution and documentation of challenges to the financial management system.

**5.9.2.2** The organization shall have a system for recording transactions that uses a unique identifier to link to supporting documentation.

**5.9.2.3** The organization shall have a procedure that allows tracing of physical documents to the financial management system.

**NOTE** The organization should use a unique reference number on the payment document to trace a transaction in the financial management system.

### **5.9.3 Gold compliance**

**5.9.3.1** The organization shall have a financial management system that has at least the following functionalities:

- a) records entries at the transactional level with a unique identifier;
- b) each transaction has an audit trail from the start of the process to completion, such as purchase order to supplier payments to financial reports to underlying documentation;
- c) enforces segregation of duty;
- d) audit trail of changes and who made the change; and
- e) ability to produce finance reports which can be checked back to the underlying transactions.

**5.9.3.2** The organization shall have a financial management system that has a built in audit trail for all transactions, with the audit trail being able to track each transaction through from start to finish.

**NOTE** This would mean that every step is recorded for each item in a finance report, from purchase order to final payment.

**5.9.3.3** There shall be a user access policy intended for all staff operating and managing the financial management system in the organization, accompanied by mechanisms put in place to classify users with reference level of seniority, level of management or user department in the organization.

**5.9.3.4** The organization shall have a policy to:

- a) require each user who accesses the financial management system to have a unique access password;
- b) periodically review the format of the unique access password requirements;
- c) review user accounts, privileged user accounts and administrators on a regular basis; and;
- d) authorize each new user and their access rights.

**5.9.3.5** The organization shall have a policy to define the frequency and locations of back-up and recovery of critical system information.

**5.9.3.6** The organisation shall have a policy for the governance of the financial management system to ensure it can produce auditable financial information. This shall include at least the following:

- a) ownership within the organization;
- b) roles and responsibilities, including who has access to, and can make changes to, the live system;
- c) types of changes to the financial management system ranging from changing financial reports to upgrades or new functionality;
- d) who can authorize changes to the financial management system; and
- e) skills and experience required.

**5.9.3.7** The organization shall have a financial management system that is capable of providing auditable financial reports, backed up by verifiable and original supporting documentation.

**5.9.3.8** The organization shall have a procedure to prevent unauthorized access to confidential digital data, records and documents and to keep confidential records and documents secure at all times, especially when not in use. This shall include the physical security over paper documents and the system security over electronic documents.

**5.9.3.9** The organization shall have a data protection policy that protects digital and personal data and information and determines which data is classified as confidential and for how long these records shall be retained.

**5.9.3.10** The organization shall have a policy which prescribes which balance sheet items are reconciled and at what frequency.

**5.9.3.11** The balance sheet reconciliations shall be reviewed and signed off by a separate more top management than the person who prepares the reconciliation.

## **5.9.4 Platinum compliance**

**5.9.4.1** The organisation shall comply with the requirements given in 5.9.1, 5.9.2 and 5.9.3.

**5.9.4.2** The organization shall have a three to five year forward strategy for its financial management system. This shall include, at least the following:

- a) the purpose of the financial management system and how it supports the organization;
- b) criteria for how the organization determines if the finance management system is meeting the needs of the organization;
- c) future enhancements, if any, to the current system and the milestones for delivery;
- d) how often the system is to be reviewed to determine if an upgrade or replacement is required; and
- e) review of the technology platform that supports the financial management system.

**NOTE** System failures should be followed up and documented, including successful resolutions and explanations.

## **5.10 Financial reporting**

### **5.10.1 Bronze compliance**

**5.10.1.1** The organization shall submit financial reports to grantors in accordance with the grant conditions.



**5.10.1.2** Financial reports submitted to grantors shall be signed as evidence of review and approval by the person identified to do so in the organization, or as specified in the grant conditions.

**5.10.1.3** All financial transactions reported shall be supported by the financial records and supporting documentation.

### **5.10.2 Silver compliance**

**5.10.2.1** The organization shall have a review and approval procedure for financial reports to key stakeholders.

**5.10.2.2** The organization shall submit a financial report to the grantor reporting actual expenditure against budget for the current grant cycle period and on a cumulative basis. A narrative explanation of any variances between actual and budget shall accompany the financial report.

**5.10.2.3** The organization's financial reports to grantors shall indicate the basis on which they are prepared unless the basis is already provided by the grantor's grant conditions.

**5.10.2.4** Other financial information reported by the organization shall include the approved budgets, expenditures and variance analyses.

**5.10.2.5** The organization shall report financial information for the current grant cycle period and cumulatively from the beginning of the grant requirements.

**5.10.2.6** The organization shall have a procedure to establish criteria for variations from budget, which requires an explanation and proposed management action to be provided in financial reports. The explanation and proposed management action for each significant variation shall then be approved by top management in the organization.

**5.10.2.7** For grant-funded expenditure, the organization shall have a procedure to confirm that its internal budget thresholds are consistent with the budget thresholds agreed with the grantor.

NOTE Many organizations use percentage of budget as part of the criteria, e.g. 10%.

**5.10.2.8** The organization shall have procedures for extracting financial information from the financial management system for financial reporting purposes.

**5.10.2.9** The organization's procedures shall include guidelines on when data can be manually added to financial reports after the information has been extracted from the financial management system.

NOTE Any manual data added will be documented and highlighted to top management reviewing the finance report.

**5.10.2.10** The organization shall have a procedure for preparing and reviewing grant finance reports by personnel responsible for the grant. This shall include the frequency with which the report is prepared, who shall review it for possible errors or compliance issues which shall be investigated and resolved.

### **5.10.3 Gold compliance**

**5.10.3.1** The organization shall prepare financial reports that are reviewed and approved by top management and/or governance board meetings.

**5.10.3.2** The organization shall have a policy for including expenditure that has been approved but which has not been spent in full.

**5.10.3.3** The organization shall be able to report all income and expenditure as required by top management and the governing board. These shall include, at least the following:

- a) grant income;
- b) expenditure;



- c) assets and liabilities; and
- d) cash flows.

#### **5.10.4 Platinum compliance**

**5.10.4.1** The organisation shall meet the requirements given in 5.10.1, 5.10.2 and 5.10.3.

**5.10.4.2** The organization's financial report shall contain at least the following: :

- a) grant income, including a narrative on how grant income has been recognized in the financial report;
- b) cumulative expenditures;
- c) assets and liabilities of the organization;
- d) cash flows; and
- e) both cumulative actual expenditure for the period being reported and a forecast and/or budget for the whole financial year.

## **6 Human resources**

### **6.1 Human resource management and payroll**

#### **6.1.1 Bronze compliance**

**6.1.1.1** Any vacancy announcements made by the organization shall outline a minimum set of skills, knowledge and experience necessary for a successful candidate to meet.

**6.1.1.2** The organization shall interview candidates, document the interview and check any references and right to work before hiring.

**6.1.1.3** The organization shall have a contract with relevant terms and conditions for all employees or other people working on and being charged to the grant.

**6.1.1.4** The organization shall have a process in place for preventing, detecting and responding to allegations of corruption, fraud and bribery.

**6.1.1.5** The organization shall have a process, for establishing and reviewing an approved salary structure.

**6.1.1.6** The organization shall have a process that requires all staff involved in a recruitment process to declare any conflicts of interest.

**6.1.1.7** The organization shall have a process to ensure all the employees directly charged to a grant record hours worked

**6.1.1.8** Timesheets, or equivalents, shall be prepared by staff working on multiple projects or grants where the grantor's conditions so require and to facilitate expenditure allocation.

#### **6.1.2 Silver compliance**

**6.1.2.1** The organization shall have in place, and communicate to all staff, a management structure with clearly defined roles, chain of command and authorizations levels.

**6.1.2.2** The organization shall stipulate the difference between consultancy and employment contracts, and consultancy fees shall be identified in the organization's records and reports.

**6.1.2.3** Any employment contract prepared by the organization shall include the terms of employment – whether fulltime, part time or otherwise. The contract shall include how much holiday the employee is entitled to annually and how many days can be carried forward into a new year.

**6.1.2.4** The organization shall have a procedure that requires all staff involved in a recruitment process to declare any conflicts of interest.

**6.1.2.5** The organization shall have a procedure to ensure all the employees directly charged to a grant record hours worked

**6.1.2.6** Timesheets, or equivalents, shall be prepared by staff working on multiple projects or grants where the grantor's conditions so require and to facilitate expenditure allocation.

**6.1.2.7** Timesheets, or equivalents, shall be approved by top management responsible for the work being undertaken.

**6.1.2.8** The organization shall have procedures for preventing, detecting and responding to allegations of corruption, fraud and bribery.

**6.1.2.9** The organization shall have a procedure for establishing and reviewing an approved salary structure.

### **6.1.3 Gold compliance**

**6.1.3.1** The organization shall have a policy for ensuring only staff with an active contract are paid and that they are recorded accurately to the correct grant or operational area. This policy shall include at least the following:

- a) approval and documentation required for a person to be added to and removed from the payroll;
- b) approval and documentation required for a person's pay to be changed;
- c) approval and documentation required to move a person from one project or grant code to another;
- d) roles and responsibilities are defined such that there is segregation of duties between payroll preparer, authorizer and making the payment;
- e) that there is segregation of duties between the person who updates HR records and who prepares the payroll; who is authorized to have access to the payroll system; and
- f) that the payroll system has an audit log that can highlight who has accessed the system.

**6.1.3.2** The organization shall prepare monthly payroll data including, at least the following:

- a) a reconciliation to the last month's payroll data highlighting any:
  - (i) new staff;
  - (ii) staff leaving.

- b) payments to staff over and above their normal payments;
- c) other reconciling data; and

NOTE Such as changes to bank details.

- d) any staff whose expenditure code has changed from the previous month.

**6.1.3.3** Payroll data shall be verified by top management prior to processing the payroll for payment.

**6.1.3.4** Changes from the previous month shall be supported by authorized documentation.

**6.1.3.5** The payroll data shall be recorded in the finance management system.

NOTE There should be a bank reconciliation prepared by the organization to the general ledger.

**6.1.3.6** The organization shall have policies for preventing, detecting and responding to corruption, fraud and bribery.

**6.1.3.7** The organization shall have a human resources system to record staff, staff pay and overtime undertaken.

NOTE This system should have similar levels of control as the financial management and payroll systems

**6.1.3.8** The organization shall have an HR policy on:

- a) planning and recruitment of staff;
- b) selection procedure;
- c) promotions of staff;
- d) disciplinary procedures;
- e) starters and leavers procedures; and
- f) code of conduct and ethics.

**6.1.3.9** The organization shall have a policy, for establishing and reviewing an approved salary structure

#### **6.1.4 Platinum compliance**

**6.1.4.1** The organization shall comply with the requirements given in 6.1.1, 6.1.2 and 6.1.3.

**6.1.4.2** The organization shall have a remuneration policy that includes at least the following:

- a) basis of pay increase and performance assessment;
- b) how the organization will benchmark its pay in relation to the market; and
- c) who reviews and approves pay increases.

**6.1.4.2** The organization shall undertake exit interview for leavers.

**6.1.4.3** The organization shall have a policy for establishing and reviewing an approved salary structure

#### **6.2 Staff development**

##### **6.2.1 Bronze compliance**

**6.2.1.1** The organization's staff training activities and programmes shall be in line with the objectives and terms of the grant.

**6.2.1.2** The organization shall maintain attendance lists for each training session.

##### **6.2.2 Silver compliance**

**6.2.2.1** The organization shall carry out training needs assessment for key functions and put in place staff development and training plans to ensure the function is operating at the level required.

### **6.2.3 Gold compliance**

**6.2.3.1** The organization shall have a staff development policy which includes at least the following:

- a) annual staff performance reviews and development requirements;
- b) staff development plans in line with the organization's goals and aspirations;
- c) selection of trainers in line with its procurement policy; and
- d) frequency and assessment criteria to determine if training is effective.

### **6.2.4 Platinum compliance**

**6.2.4.1** The organization shall comply with requirements given in 6.2.1, 6.2.2 and 6.2.3.

## **7 Procurement**

### **7.1 Planning**

#### **7.1.1 Bronze compliance**

The organization shall have a process to check 'market' prices for goods and services purchased.

#### **7.1.2 Silver compliance**

**7.1.2.1** The organization shall have procedures for all procurement activity and document and analyse all exceptions. These procedures shall include at least the following:

- a) who is authorized to approve procurement;
- b) the roles and responsibilities of those involved in procurement;
- c) authorizations for different values and length of the contract;
- d) who can sign a legal contract;
- e) how conflicts of interest are mitigated in the procurement process;
- f) the value or criteria of procurement which requires a formal procurement process to be undertaken;
- g) how the outcomes of the procurement will be documented and reported;
- h) how the supplier is to be selected;
- i) what financial checks on the supplier will be done;
- j) supplier compliance with the grantor conditions; and
- k) frequency of review.

**7.1.2.2** The organization shall have procedures for handling complaints of potential and current vendors. The procedure will be made available to potential or current vendors on request.

**7.1.2.3** The organization shall have transparent, competitive and fair procedures for selecting its vendors, with clear specifications on mode of advertisement, shortlisting, bid analysis, and comparison with the list of approved vendors.

**7.1.2.4** There shall be a clear description in the documents sent to suppliers of the goods or services being procured.

NOTE The description should promote transparent competition and should reflect all requirements including, but not limited to specific features of “brand-name or equal” descriptions, the acceptability of metric measurements and preference for ecologically sound and energy-efficient products.

**7.1.2.5** The organization shall have a procedure for segregation of duties in procurement, including who can approve contract changes and amendments.

**7.1.2.6** The organization shall have a procedure that addresses breaches or violation of contracts.

NOTE Consequences of violation of contract may include blacklisting, cancellation of contract or arbitration.

**7.1.2.7** The organization shall have a procedure that states the frequency of how the market is tested for goods that are purchased on a recurring basis.

### **7.1.3 Gold compliance**

**7.1.3.1** The organization shall have a procurement policy that demonstrates procurement is value for money, delivers the grant’s objective, is transparent, and that decision making is free from conflict of interest with key roles having segregation of duties. The policy shall include at least the following:

- a) criteria for selecting preferred suppliers;
- b) criteria for when supplier frameworks are to be used;
- c) the specific modes of procurement the organization can use, such as:
  - i.) previous contract outcome and apply to new procurement situation;
  - ii.) a request for proposal;
  - iii.) expression of interest;
  - iv.) invitation to tender; and
  - v.) request for quote.

NOTE 1 Requests for proposals (RFP) are typically used where the organization either can’t – or doesn’t want to – define the specifications up front to an adequate level of detail. Often organizations are faced with situations where they know what they want to achieve, but they don’t have the expertise or time to figure out how to get there. They need to rely on the experience and creativity of suppliers to define the best path to success. This requires the potential supplier to define the work.

NOTE 2 Invitations to tender are typically used where the organization knows in detail what they want. The invitation to tender document contains detailed specifications for the performance of the work as well as detailed qualifications and requirements for the suppliers to meet. Examples are construction works and services, e.g. cleaning.

NOTE 3 Requests for quote (RFQ): is a lot like a tender, however typically smaller in size and scope. They’re often more geared towards organizations who are seeking pricing information for a defined scope of work or supply of materials or equipment. Like the tender, the specifications, terms and expectations are well laid-out and the supplier has fewer obligations for defining the scope themselves.

- d) when and how the procurement modes shall be used;

NOTE This will take into account the value, risk and complexity of the procurement as well as grant conditions.

- e) stipulation of roles and responsibilities for each mode of procurement;

NOTE For sealed bids the procurement process will include who the bids are addressed to; who opens them, who assesses them.

- f) who shall be involved in the procurement process and what is their role with consideration of conflicts of interest;

- g) in what circumstance, if any, is the supplier with the lowest cost not to be the preferred supplier;
- h) any additional legal or ethical requirements specific to the region or country where the procurement is taking place;
- i) when references are to be taken up; and
- j) how conflicts of interest will be identified.

**7.1.3.2** The organization shall document the criteria used to select the supplier to support the decision as best value for money.

**7.1.3.3** Where there is a formal procurement process undertaken, the organization shall send to the suppliers, at least the following:

- a) the legal name of the organization;
- b) specification of goods and services being procured;

**NOTE** This should be in sufficient detail that will enable the organization to hold the supplier to account for delivering the goods and services.

- c) a requirement that the bidders respond in a specific format to allow easy comparison with other bidders;
- d) specific format for costs; and
- e) any exceptions shall be documented and reported.

**7.1.3.4** The organization shall have a committee, composed of competent persons, that, as part of its function, has oversight of the procurement activity.

**7.1.3.5** The organization shall record all minutes of these committee meetings.

**NOTE** The committee may be a procurement committee or another committee of which oversight of procurement is one of its responsibilities.

### **7.1.4 Platinum compliance**

The organisation shall comply with the requirements given in 7.1.1, 7.1.2 and 7.1.3.

## **7.2 Contract management**

### **7.2.1 Bronze compliance**

**7.2.1.1** The organization shall have secure storage for vendor and supplier contracts.

**7.2.1.2** The organization shall require that all cost overruns are only admissible with express approval from the organization and that such overruns be within the grant budget limits.

### **7.2.2 Silver compliance**

**7.2.2.1** The organisation shall have a contract management procedure for review of current contractors or individuals. This shall include at least the following:

- a) who is responsible for the review of each type of contract and the frequency with which those reviews should take place;
- b) how performance is assessed and the actions to be taken where performance is below standard; and

- c) how copies of contracts are stored, kept secure and can be accessed.

**7.2.2.2** The organization shall require progress reports from the vendors in accordance with the agreed upon milestones in the contract.

**7.2.2.3** The organization shall review all contract performance before renewal or any extension is granted.

**7.2.2.4** The organization shall have a procedure for approval of contract cost overruns.

**7.2.2.5** The organization shall keep and maintain records showing the amount still owing to each supplier.

**7.2.2.6** The organization shall have a procedure to review suppliers and or contractors performance against the approved contract.

### **7.2.3 Gold compliance**

**7.2.3.1** The organization shall have a policy that includes at least the following:

- a) who maintains and monitors a list of supplier contracts and their expiry dates; and
- b) how to undertake the assessment of the risk to the organization of key suppliers and who has oversight of that risk.

### **7.2.4 Platinum compliance**

**7.2.4.1** The organisation shall comply with requirements given in 7.2.1, 7.2.2 and 7.2.3.

## **8 Governance**

### **8.1 General**

#### **8.1.1 Bronze compliance**

**8.1.1.1** The financial and delegated authority of each member of staff and governing board (where appropriate) to make or approve decisions shall be clearly communicated to all those involved in the financial management of the organization and its grants.

**8.1.1.2** The organization's processes shall be communicated to all staff.

**NOTE** Communication of the organization's processes to staff can be achieved through making them available to staff in a document repository or the organization's intranet with specific training for staff who have responsibility for carrying out the procedures.

**8.1.1.3** The organization shall keep records of all top management or governing board meetings which shall include at least the following;

- a.) attendees (who attended and who was absent);
- b.) agenda items and papers;
- c.) record of the decisions made at the meeting or actions arising; and
- d.) list of previous meetings actions arising and if cleared or not.

#### **8.1.2 Silver compliance**

**8.1.2.1** The organization shall have an organizational chart which shall show the delegation of authority and be communicated to all staff.

NOTE The organizational chart may be made up of either people or committees who have delegated authority.

**8.1.2.2** The organization shall have a code of conduct that is disseminated to all staff, and externally as appropriate.

NOTE The code of conduct should clearly describe how complaints can be made and what action would be taken if staff do not comply with the code of conduct.

**8.1.2.3** The organization shall keep records of all top management or governing board meetings which shall include at least the following;

- a.) attendance sheet (who attended and who was absent);
- b.) agenda items and papers;
- c.) record of the decisions made at the meeting or actions arising; and
- d.) list of previous meetings actions arising and if cleared or not"

**8.1.2.4** The governing board shall have terms of reference specifying the method of appointment, qualifications and roles and responsibilities, which are clearly distinguished from the roles, responsibilities and composition of management of the organization.

NOTE Where the governing board also has some management functions then the terms of reference should clearly state what these are and how they are to be managed.

**8.1.2.5** The organization shall have a procedure that defines the frequency of meetings of its governing board.

**8.1.2.6** The organization shall have a procedure for who will review, and the frequency of, financial reports.

NOTE The financial reports should be reviewed by the top management at least twice a year and any issue identified, investigated and reported back to the governing board.

### **8.1.3 Gold compliance**

**8.1.3.1** The organization shall have a documented vision, mission and set of goals that are articulated and communicated to staff members and key stakeholders.

**8.1.3.2** The organization shall have a written constitution and defined governance and executive functions including an organizational structure.

**8.1.3.3** The organization shall have a policy for recording, retaining and disposing for all financial documents and data. This shall include at least the following:

- a) how long documents and data are retained
- b) how and where documents and data (whether in document or electronic form) are retained.
- c) how documents and data are securely disposed of .

**8.1.3.4** The organization shall have a board or committee which is responsible for oversight of risk and which reviews the risk register and directly receives reports from the internal audit function.

### **8.1.4 Platinum compliance**

**8.1.4.1** The organization shall comply with the requirements given in 8.1.1, 8.1.2 and 8.1.3.



**8.1.4.2** The organization shall have a set of values, approved by the governing board that communicates how staff are to conduct themselves.

**8.1.4.3** The organization shall have a business continuity plan and strategic plan that has been reviewed and approved by the governing board.

## **8.2 Grant management and compliance**

### **8.2.1 Bronze compliance**

**8.2.1.1** The organization shall determine that it will be able to comply with the grantor's requirements before signing any contract or written agreement with the grantor or third parties.

**NOTE** The organization should review a grantor's grant conditions prior to making the application and before signing any written contract or agreement with the grantor.

**8.2.1.2** The organization shall demonstrate compliance with each grantor's requirements.

**8.2.1.3** The organization shall review financial reports to grantors to monitor whether they are supported by the documentation to meet each grantor's requirements during the lifetime of the grant including closure.

**8.2.1.4** The organization shall store any document required to demonstrate compliance and which may be needed for inspection or audit for the period of time required by its grantors.

### **8.2.2 Silver compliance**

**8.2.2.1** The organization shall have a grant application procedure that includes at least the following:

- a) who can review and approve each application;
- b) how to ensure grant applications are consistent with the organization's purpose;
- c) how organizations shall comply with the grantors requirements; and
- d) how to identify any risks which could affect the organization's ability to deliver the plans and budget within the application and how they can be managed.

**8.2.2.2** The organization shall ensure all grant contracts or written agreements are reviewed by a competent person to document any conditions which are in addition to the organization's written procedures so that these are communicated to all those involved in delivering and managing each grant.

**8.2.2.3** The organization shall have procedures for closing grants that include at least the following:

- a) how the organization provides evidence that the grant conditions have been met;
- b) how all claims have been made and the project or grant code is closed to new expenditure; and
- c) how the treatment of any remaining expenditure in the project or grant code.

### **8.2.3 Gold compliance**

The organization shall have policies, which set out the procedures and controls that govern at least the following:

- a) the grant application process;
- b) negotiation and signing contracts or written agreements with grantors;
- c) ensuring ongoing compliance with grantors' requirements;

- d) the closeout of all grants to ensure compliance with each grantor's closure requirements and that the organization's own systems and records reflect the grant closure and any requirements to store records for inspection or audit after grant closure;
- e) if funding opportunities should be sought, and if so, using what criteria; and
- f) who is authorized to apply for grants.

### 8.2.4 Platinum compliance

**8.2.4.1** The organization shall comply with the requirements given in 8.2.1, 8.2.2 and 8.2.3.

**8.2.4.2** The organization shall have internal assurance processes that, at least annually, confirm that it is complying with all grantors' requirements and the organization's own policies governing grant management and compliance.

**8.2.4.3** The organization shall include within its internal audit programme a review of whether the organization's controls are adequate to gain assurance that it is complying with grantors' grant conditions.

## 8.3 Audit

### 8.3.1 Bronze compliance

**8.3.1.1** The organization shall make any supporting documents covering financial and programme aspects of their grants available for audit.

**8.3.1.2** All the information reported in the organization's financial reports shall be supported by accounting records.

**8.3.1.3** The organization shall have measures in place to prevent and mitigate conflicts of interest which could affect employees or governing board members participation in decision-making.

**8.3.1.4** The organization shall appoint an independent qualified professional to undertake grant audits as required by the grant conditions.

### 8.3.2 Silver compliance

**8.3.2.1** The organization shall have procedures that stipulate review of all financial report and supporting documents by top management who is different to the person who prepared the reports.

### 8.3.3 Gold compliance

**8.3.3.1** Where the organization uses third-party internal auditors, there shall be a contract.

NOTE 1 This contract should include how the organization can share the audit reports with grantors and other key stakeholders.

NOTE 2 This procedure should be a collective record of all outstanding audit issues and their due dates with monthly follow up with issue owners and a report to the board or committee responsible for ensuring issues are completed.

**8.3.3.2** Where the organization uses third-party internal auditors, there shall be terms of reference which state at least the following:

- a) maximum length of appointment without review;
- b) frequency of the process for assessing the auditors performance; and
- c) maximum length of time before a formal procurement exercise to test the market.

NOTE 1 A review of the auditors performance should be annually and at least no more than every two years.

NOTE 2 A formal procurement exercise should be held at least every five years.

**8.3.3.3** The organization shall have an internal audit function.

**8.3.3.4** The organization shall, when appointing internal auditor, check that they are competent, taking into account the complexity of the organization. The audit committee or equivalent shall be responsible for appointment and removal of third party internal auditors and /or the head of internal audit.

NOTE This should be demonstrated by the inclusion of qualification and experience required within job descriptions for staff and procurement documents for third parties.

**8.3.3.5** The organization's annual internal audit plan shall include review, on a risk basis, of the following key financial controls;

- a) bank and other balance sheet reconciliations;
- b) payment of expenditure and receipt of funds;
- c) compliance with grantor's grant conditions;
- d) petty cash and staff expenses;
- e) annual leave accruals;
- f) finance management systems;
- g) finance reports to key stakeholders and internal boards and committees charged with financial oversight;
- h) inventory and other consumables; and
- i) assets.

**8.3.3.6** If the internal auditor becomes aware of illegal acts or other irregularities, he or she shall give prompt notice to the involved person's supervisor, a member of top management or a member of the audit committee.

**8.3.3.7** The internal audit activity's plans and resource requirements, including significant interim changes, shall be presented to top management and the governing board and/or audit committee for review and approval.

**8.3.3.8** The organization shall supplement the internal audit function with external expertise as and when required to ensure that the audit or review is carried out by competent person.

**8.3.3.9** Where the organization awards sub-grants, the organization shall require sub-grantees to comply with both the ultimate grantor's audit requirements and be subject to the organization's own audit programme.

**8.3.3.10** The organization shall have a procedure in place that ensures that all internal audit findings and recommendations are addressed.

NOTE This procedure should be a collective record of all outstanding audit issues and their due dates with monthly follow up with issue owners and a report to the board or committee responsible for ensuring issues are completed.

**8.3.3.11** The organization shall have an audit committee to assist the governing board in fulfilling its oversight responsibilities for the financial reporting process (where relevant), the system of internal control, the audit process and the organization's process for monitoring compliance with laws and regulations and the code of conduct.

NOTE The audit committee's functions should include review and commentary on the annual programme of the internal audit functions. This review should include updates, review of management responses to, and implementation of the recommendations

by the internal audit function. In addition, this review should provide an opinion to the grantor, regarding the financial stability of the organization.

**8.3.3.12** The organization shall have a document that defines internal audit's purpose, authority, responsibility and position within the organization. It shall include the reporting lines to demonstrate how it will maintain a degree of semi-autonomous independence.

NOTE 1 The document shall include how the organization will approach its internal audit programme on a risk basis.

NOTE 2 The person who leads the internal audit function should periodically review the document and present it to top management and the governing board for approval.

### **8.3.4 Platinum compliance**

**8.3.4.1** The organization shall comply with the requirements given in 8.3.1, 8.3.2 and 8.3.3.

**8.3.4.2** The organization shall establish an organization-wide internal audit plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

## **8.4 Risk management**

### **8.4.1 Bronze compliance**

**8.4.1.1.** The organization shall have processes for preventing, detecting, reporting and taking remedial measures to prevent fraud, bribery and corruption.

NOTE The organization should familiarize itself with any relevant health and safety regulations, labour and environmental laws.

### **8.4.2 Silver compliance**

**8.4.2.1** The organization shall have a risk register which includes at least the following:

- a) key risks;
- b) current risk rating based on likelihood;
- c) the desired risk rating;
- d) what controls are already in place;
- e) what additional controls are being implemented to bring the risk from the current risk to the desired risk; and
- f) frequency of update and reporting to management and/or governing board.

NOTE Risk registers should be reviewed at least twice a year by the governing board who have oversight of risk for the organization.

**8.4.2.2** The organization's risk register shall be maintained by competent persons approved by management.

**8.4.2.3** The organization shall undertake an investigation after any instances of loss, damage, or theft and report the outcome to those delegated with oversight and grantors when applicable.

**8.4.2.4** The organization shall have IT security and risk management procedures that include maintenance of anti-virus software and firewalls to protect computer systems and information from unauthorized access and destruction.

**8.4.2.5** The organization shall have a code of ethics which shall be disseminated to all staff, and relevant contractors and third parties

**8.4.2.6** The organization shall have and communicate widely a whistle-blowing and complaints procedure that contains, at least, guidelines for:

- a) responding to and investigating any suspicions of wrongdoing;
- b) protecting those who reported their suspicions without fear of punishment or unfair treatment; and
- c) protecting the rights of the accused.

**NOTE** The organization should identify an independent third party to whom staff can report activities requiring whistle-blowing.

**8.4.2.7** The organization shall have a procedure for preventing, detecting and responding to allegations of fraud, corruption and bribery.

### **8.4.3 Gold compliance**

**8.4.3.1** The organization shall have a risk policy that includes at least the following:

- a) the risk appetite of the organization across all its functions;

**NOTE** The risk appetite should be in tiers such as 'risk adverse', 'receptive' (takes risks within limits) and 'bold' (takes risks where appropriate for expected benefit).

- b) approach to risk that is proportionate and aligned;
- c) governance and reporting organogram;
- d) how risk will be measured and monitored through the risk register (i.e., frequency and impact);
- e) the maximum period of time before the policy is reviewed; and
- f) frequency and method for carrying out risk assessments of all key operational activities.

**8.4.3.2** The organization shall have a disaster response plan. This will include at least the following:

- a) an impact analysis to identify time-sensitive or critical activities, services, functions and processes and the resources that support them;
- b) identities or names of the disaster recovery team with responsibility for implementing the plan; and
- c) how to identify, document, and implement the activities identified in a).

**8.4.3.3** The organization shall carry out a simulated exercise of possible disasters to determine the effectiveness of the disaster response plan.

**NOTE** A simulation exercise should be carried out on an annual basis.

**8.4.3.4** The organization shall report the outcome of this exercise to the top management and/or governing board.

**8.4.3.5** The organization shall have a policy for preventing, detecting and responding to allegations of fraud, corruption and bribery. The policy shall include at least the following:

- a) policy statement;
- b) to whom the policy applies;
- c) definition of fraud, bribery and corruption;

- d) risk assessment;
- e) consideration of gifts and hospitality;
- f) training and communication; and
- g) monitoring and assessment.

**8.4.3.6** The organization shall examine its operations and controls to identify corruption, bribery or fraud vulnerabilities and implement specific prevention strategies, including educating staff about the risks.

**8.4.3.7** The organization shall have procedures to implement and maintain risk assessments of all key operational activities in line with the risk policy. The outcome of these shall be reported to the governing board for the oversight of the policy.

**8.4.3.8** The organization shall carry out vetting and background checks for all persons appointed to the governing board and top management so that their expertise and qualifications meet the job requirements.

**8.4.3.9** The organization shall put in place a risk management function which advises and ensures effective coordination between the governing board, top management and operational staff to ensure they understand and carry out their roles and responsibilities in risk management.

**8.4.3.10** The organization shall have a mechanism to profile and classify sub-grantee's risk levels as high, moderate or low risk.

#### **8.4.4 Platinum compliance**

**8.4.4.1** The organization shall comply with the requirements given in 8.4.1, 8.4.2 and 8.4.3.

**8.4.4.2** The organisation shall have a succession plan for its key functions. This shall include at least the following;

- a) short term or immediate replacement of staff or resource critical to the organization's ability to deliver to the grant conditions; and
- b) training and development of staff with potential to fill leadership and other critical roles.

**8.4.4.3** The organization shall have a plan to ensure its long term sustainability. This shall be reviewed annually and include at least the following; :

- a) medium to long term and sustainable funding strategy, including reserves; and
- b) investment in systems and assets to ensure availability for the medium to long term.

## Annex A (informative)

### The seven principles of good financial grant practice and four key pillars of good financial management

#### A.1 The seven principles of good financial grant practice

##### A.1.1 Accountability

All stakeholders, including grantees, have the right to know how financial and other support has been used to meet objectives. Grantees have an operational, moral and legal duty to explain their decisions and actions, and make their financial reports open to scrutiny.

##### A.1.2 Stewardship

Financial stewardship involves organization and/ or grant leadership that safeguards assets and investments. The top management and governing board ensures there are adequate governance structures, procedures and controls in place to demonstrate that the grant funding is being put to the use as per the grantor conditions.

##### A.1.3 Compliance to standards

The recording and reporting of financial transactions and documentation should observe accepted accounting principles. A qualified accountant from anywhere around the world should be able to understand an organization's financial accounting records.

##### A.1.4 Transparency

The organization and grantees should be open about their work, providing information about activities and plans to their key stakeholders. This includes preparing accurate, complete and timely financial reports.

##### A.1.5 Viability

To be financially viable, a grantee's spending must be kept in balance with money coming in, both at the operational and the strategic levels. Viability is a measure of the grantee's financial continuity and security. The governing board and management should prepare a financing strategy to show how the organization should meet all of its financial obligations and deliver its strategic plan.

##### A.1.6 Integrity

On a personal level, individuals must operate with honesty and propriety. For example, managers, top management and the governing board must lead by example in following organizational policy, or declare personal interests that might conflict with their official duties. The integrity of financial records and reports is dependent on accuracy and completeness of financial records.

##### A.1.7 Consistency

Consistent use of financial policies and procedures are important for efficient and effective operations. For example, a clear procurement procedure should help staff to follow the correct process and ensure compliance with grantor rules. Consistent use of accounting codes in financial records and budgets produces financial reports that are consistent and transparent to key stakeholder.

#### A.2 The four key pillars of good financial grant practice



To provide further guidance to grantors and grantees as to which tier they may wish to be compliant, the Table A.1 describes the requirements and activities within internal controls, record keeping, planning and monitoring which would be occurring at bronze, silver, gold and platinum levels of compliance.

### **A.2.1 Internal controls**

Internal control is a system of common sense controls, checks and balances designed to manage internal risk and safeguard the organization's money, equipment and other financial assets. The purpose of internal controls is to minimize losses, such as through theft, fraud, corruption, bribery or incompetence. An effective internal control system also protects staff, an organization's most important asset.

### **A.2.2 Record keeping**

Every organization must keep an accurate and complete record of all financial transactions that take place during the financial year so they can show how grants have been used. Accounting records include both the physical paperwork (such as receipts and invoices) and the 'books' of account where the transactions are recorded and summarised.

### **A.2.3 Planning**

Linked to the organization's strategic and operational plans, budgets are the cornerstone of financial management and play an important role in monitoring the use of grants. The financial planning process includes building longer-term plans, such as a financing strategy, and shorter-term budgets for projects, grants and programmes, and cash flow forecasts.

### **A.2.4 Monitoring**

Provided the organization has kept accurate and timely accounting records, and has set its budgets, it is possible to produce financial reports for use by different stakeholders. For example, budget-monitoring reports help managers to monitor the progress of their projects or grants, and annual financial reports provide accountability to external stakeholders.

**Table A.1 – The GFGP tiers and four pillars of good financial grant practice**

<b>Tier</b>	<b>Pillars</b>	<b>Requirements and activities</b>
<b>Bronze</b>	<b>Internal controls</b>	Basic internal controls such as safe and secure storage of cash and financial records. Documented process where required. It should be possible for an independent person to verify all transactions to the underlying records and original supporting documents
	<b>Record keeping</b>	Requirements are at least a cash-book, either manual or electronic, supported by the associated documents and receipts.
	<b>Planning</b>	There is a budget that lists the expenditure expected to be funded from the grant.
	<b>Monitoring</b>	Transaction level reports which list cash received and cash expenditure for each grant.
<b>Silver</b>	<b>Internal controls</b>	Procedures for all key processes including a segregation of duties with another person other than the preparer to make payments or review financial reports. Bank reconciliations are undertaken to agree the bank account and the accounting records.
	<b>Record keeping</b>	Requirements include using unique references for transactions and organizing the supporting paperwork and organization records within a filing system. The financial management system may be a spreadsheet but with controls to prevent double payments of an invoice.



	<b>Planning</b>	Preparation of budgets includes documenting the impact of foreign exchange variations, direct and indirect costs,, other budget assumptions such as inflation and estimates for more complex expenditure.
	<b>Monitoring</b>	Reporting requirements include narrative to explain variances to budgets but reporting is in line only with grantor requirements.
<b>Gold</b>	<b>Internal controls</b>	Policies for all key financial procedures such as procurement, property, plant and equipment, cash, bank and treasury; and sub-grantee management. The organization should have its own internal audit function to test controls. It should all carry out balance sheet reconciliations.
	<b>Record keeping</b>	Should have a financial management system which supports segregation of duties and enables an audit trail for transactions from the start of the financial process to the payment of supplier and reporting with ability to trace the transaction back to supporting documentation.
	<b>Planning</b>	Undertake long-term planning and other proactive activities such as risk management, preparation of cash-flows and regular re-forecasting. Undertaking more complex analysis such as classifying expenditure into direct and indirect costs. Disaster recovery plans should be in place.
	<b>Monitoring</b>	Financial reports include expenditure which has not yet been paid either by adopting an accruals basis for accounting or through including known commitments to future spending. Reporting is at the organizational level and reports are presented to management on a regular basis. Monitoring includes review of the financial performance of sub-grantees as well as their compliance with grant conditions. There should be a governing board which is independent of the day to day operations and which has oversight of the organization.
<b>Platinum</b>	<b>Internal controls</b>	The governance of the organization should be ensuring compliance with internal controls through an audit committee which oversees internal audit.
	<b>Record keeping</b>	The organization should have a plan to continuously improve and review its financial management systems.
	<b>Planning</b>	The governance of the organization should oversee plans for its long-term financial sustainability and ensure effective risk management, including policies covering business continuity.
	<b>Monitoring</b>	The governance of the organization should oversee assurance mechanisms which cover all aspects of the organization including grant management and sub-grant management.

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