

# Financial Management and Support

## Principles

Robust financial management plays an essential role in an effective ACT Alliance humanitarian response project. Accountable financial management enables effective and timely cash and budget management to allow for efficient implementation of projects with requisite levels of accountability to ACT Alliance donors. Financial management enables timely and accurate management and reporting of expenditures. At the core of ACT Alliance's humanitarian projects are members working together to deliver aid to the people in need. Financial management is an integral part of its operations where some members fund projects while members in the locality of the disaster implement the humanitarian response. ACT Alliance members work together to deliver assistance with accountability shared throughout the membership. Requesting and Funding Members, as well as the ACT Secretariat, are all key stakeholders in ensuring high quality financial management and the smooth flow of funds.

## Responsibilities

**Requesting Members** are responsible for the effective financial management of funds received from the ACT Secretariat in accordance with good practices already established and within this manual.

The Requesting Member takes the following financial management responsibilities, with support from the Secretariat and other members involved in the response:

- A clear financial structure and sufficient personnel capacity to adequately meet project demands.
- Internal controls for accountable financial management.
- Management of cash and cash equivalents to ensure safe and accountable control of cash and ensure cash flow is adequate for operational requirements.
- Implementation of appropriate controls and procedures for cash disbursements, including cash advances, petty cash funds, travel advances and any use of cash facilitators.
- Effective management of contracts and grants, including tracking of contributions, management of budgets, compliance with donor regulations, expenditure reporting and internal audits.
- Support regarding budget development.
- Coordinate with ACT secretariat and provide timely information on funding receipts through Payment Advice Notes, financial reports including variance and audit reports.

**Funding Members** are responsible for providing funds in a timely manner so that Requesting Members can use the funds more effectively. Funding Members are responsible for fundraising for response efforts and often are responsible for external donor requirements and reporting. Members are encouraged to transfer all humanitarian funds through the Secretariat to ensure a higher level of accountability.

Funding members should inform ACT secretariat if funds are transferred to the Requesting Members directly. The secretariat and management costs will be collected from the funding member.

- **Pledges.** Funding members need to inform the ACT Secretariat of pledges and when pledges are expected to be transferred. This ensures implementation will run smoothly if requesting members know if funds are coming and when. ACT Secretariat will inform requesting members accordingly.

**The ACT Secretariat** is responsible for the financial management and disbursement of funds received through the Secretariat accounts and keeps track of the funding levels for each appeal. The ACT Alliance Secretariat provides financial management support to requesting members throughout the operational management cycle to ensure accountability and assist with funding disbursements. The ACT Secretariat takes no responsibility for the financial management of funds received by requesting members through bilateral agreements outside of the appeal. Funds are to be transferred to requesting members within three business days of receipt if funding allocations have been identified or agreed by the requesting members.

**Payment Advice Note.** ACT secretariat provides receipts for funding members as soon as the funds have been recorded in the bank and sends a Payment Advice Note (PAN) to requesting members as soon as the funds have been transferred.

### Accounting Guidelines

Accounting involves a series of tasks, including recording, analyzing, summarizing, and reporting transactions. Members must establish proper accounting systems to maintain accounts for ACT Alliance-funded projects, either manually or using software. However, the ACT Secretariat strongly encourages members to use accounting software.

**Accounting System:** Members are required to follow a double-entry accounting system and adhere to the International Accounting Standards adopted by the Institute of Chartered Accountants in the implementing /member country.

**Accounting Basis:** There are two bases for accounting:

- **Accrual Basis Accounting:** This method recognizes income when earned, even if not yet received, and expenses when incurred, even if not yet paid. Members should use the accrual basis of accounting for year-end and project-end reporting.
- **Cash Basis Accounting:** This method records income when received and expenditure when paid.

Members may adopt either the cash basis or accrual basis of accounting in line with their organization's policy. The chosen accounting basis must be explicitly stated in their financial manual. However, members must use the accrual basis of accounting for year-end and project-end reporting.

### Retention of Financial documents

The Requesting Members will keep financial records for a period of seven years after the completion/termination of the project. The document retention period may vary depending on donor requirements, and the ACT Secretariat will notify members in due course if alternative periods become applicable.

### First in first out principle (FIFO)

Based on the premise that funds are spent as they are received, the First in First Out Principle (FIFO) was chosen as the preferred system to be used to determine whose contribution makes up the unspent balance upon closure. The FIFO principle is applied based on the dates when the Requesting Member received the funds and excludes contributions that have been pledged but not transferred to the Requesting members. The FIFO principle can be waived with the approval of the Head of Humanitarian Affairs at ACT secretariat if funds were received from back donors with specific requirements.

### Budget Line Items

A budget is developed using the Budget Template for all humanitarian responses. Please refer to the [Guidance Note on Appeal Budget Preparation](#).

### Management of Unspent Balances

Funds must be utilized by the end of the project in accordance with the approved budget. If it is anticipated that there will be unspent funds at the end of the project period, these funds should be reported at least three months prior to the project end date for appeals and one month for RRFs. A requesting member can request a no-cost extension. Please refer to the [Guidance Note on No Cost Extension](#).

The FIFO principle is used to determine attribution of unspent funds to the funding member. For unspent balances of more than USD 500, ACT secretariat will need approval from the funding members to:

- allocate the funds to the Rapid Response Fund
- allocated to an active appeal.
- Transfer to a new appeal if there is a planned appeal to be launched in the same geographical location and requesting member.

### Overfunded Appeals

It is the role of ACT secretariat finance to give regular updates on funding levels both for Funding and Requesting members. There are instances, however, when requesting members receive contributions directly from the funding members. It is the responsibility of the Funding member to inform the ACT secretariat that contributions have been made to a particular appeal to avoid overfunding.

Significantly overfunded appeal needs to be revised and republished and there should be a revised workplan that effectively program the additional funding. The ACT Secretariat will not transfer funds received if the funding level is over 100% until a revised appeal has been published.

### Separation of Duties

Ensures that one person's work serves as a complementary check on another's. This effectively calls for no one person to have completed control over any transaction from start to completion. Having adequate separation of duties has a major impact on ensuring that transactions are valid and recorded properly. The general principles that govern effective separation of duties as a part of financial management can be summarized as follows:

- Separate custody of assets from accounting
- Separate authorization of transactions from custody of related assets
- Separate duties within the accounting function
- Separate operational responsibility from record keeping responsibility.

Adhering to all these principles may not be possible due to resource limitations or other considerations. In these cases, the risk resulting from inadequate separation of duties should be assessed to ensure that the level of exposure is acceptable to ACT Alliance Forum members.

### Funds Disbursements

Contributions to an appeal or RRF are channeled through the Secretariat and transferred to the Requesting Members within **five days of receipt**, provided that the funding level has not reached 100% of the published appeal response plan and budget. The Secretariat may receive funds any time during the project period except in the last three months when new contributions will not be accepted unless there is an assurance from Requesting members that the funds will be utilized. This is to avoid large unspent funds at the end of the project. For RRF responses, funds should be transferred within two (2) business days of an approved RRF proposal, since this comes from the pooled RRF fund raised through a global appeal.

### Compliance with in-country Law and Regulations

The Requesting Member must follow all the rules and regulations of the local authorities and the Government of the Implementing country. These include but are not limited to:

- a. Organization's constitutional obligations
- b. Income Tax, VAT, and Stamp Act
- c. Central Bank's Money Anti Laundering and Anti-Terrorism Act

### Budget Monitoring and Oversight

Regular monitoring is essential to identify deviations from the plan and to ensure that any necessary corrective action, such as postponing or disallowing expenditure, is taken promptly. To monitor budgets and expenditures, members are required to conduct a quarterly review of budget variance reports and take necessary action when needed. Members' project managers must review these reports and document their findings.

Members must communicate and consult ACT Secretariat for expenses over 10% in any of the budget line regardless if it is still within the actual total costs, including a justification for the variance and an explanation of how the additional budget will be adjusted across other budget headings. Members are required to submit budget modifications if the secretariat is informed only in the final report submission. Total indirect costs should NOT exceed 15% of the actual total costs.

### Bank Reconciliation

Members may be asked to submit a bank reconciliation statement together with the financial report to verify information.

Bank reconciliation is a process of comparing your organization's financial records with your bank's records to ensure they match. It is a check-up for the cash flow, making sure everything in the

books aligns with what's happening in the bank account. A bank reconciliation should be prepared monthly.

### Provision/ Accruals for Expenses

The ACT Secretariat allows accruals only at the year-end and project-end, provided

- Provisions or accruals for expenses can only be made after satisfactory receipt of goods and services, with proper supporting documents.
- The basis of calculation for accruals, such as for utilities, telephone expenses, etc., must be explained in the financial report.
- All accruals must be settled before the audit report is finalized.
- Members are required to maintain a statement of outstanding accruals, which may be requested for submission along with the financial report.

### Purchase of Goods and Services

Requesting members are expected to have their own procurement policies and guidelines, which they will adhere to. In the absence of a policy, members need to apply ACT Alliance's procurement policy.

### Fixed Assets

Fixed assets purchases are limited to furniture and office equipment that are needed for project implementation. This needs to be explained in the budget proposal.

All fixed assets valued at more than USD 500 and purchased with Appeal (ACT) funds must be assigned a unique ID number, which should be visibly marked on the assets. These assets are to be used exclusively for the purposes of the Appeal project. Members are required to maintain a Fixed Asset Register to ensure proper management and safeguarding of the assets. Additionally, all assets must be stored in a safe and secure location, kept in good condition, and protected from environmental and human-made risks.

A physical verification of Fixed Assets must be conducted at least once a year. After the closure of the appeal, all fixed assets procured with funds from the Appeal should be included in the financial report. ACT secretariat will issue a certificate of donation to the Requesting member.

### Financial Monitoring by ACT Secretariat

The ACT Secretariat may conduct periodical visits/ remote monitoring of its members to validate members' financial reports based on a risk assessment of the finance staff. A monitoring terms of reference is prepared and agreed upon between the secretariat and members including the date of the visit. The secretariat may outsource a Chartered Accountancy firm or qualified consultant to conduct the monitoring visit.

The frequency of visits may depend on due diligence, visit observations, internal control, following the ACT Monitoring and Evaluation guidelines.

The visiting team will share the draft findings with the members concerned during the visit. A draft report will be submitted to member management within two weeks of the visit. Members need to submit their management response against the visit findings within seven days after receiving the

report. If the secretariat is not satisfied with the response, a meeting between the secretariat and members may be held for a final decision, or the secretariat may send further queries to finalize the visit report.

The members will develop an action plan based on the visit findings and recommendations by the secretariat.

### Financial Reporting

Financial reporting on all operations is to take place within the required deadline indicated in the Reporting section of the published Appeal. The Requesting Member has the responsibility to submit these reports to the ACT Secretariat within the agreed timeline. The ACT Alliance Secretariat then has the responsibility within ten (10) business days to provide those financial reports to all relevant involved in the humanitarian operation and who contributed to the appeal.

- Indirect costs should NOT exceed 15% of the actual reported direct costs (regardless of what was budgeted).
- If a requesting member receives funding that is lower than the originally approved budget, the ACT Secretariat requires the expenditure report to reflect the same proportional distribution across all budget lines. This means that despite the reduced funding, the allocation of expenses should maintain the same percentage ratios as outlined in the approved budget, ensuring consistency and alignment with the financial plan.

### Questioned Cost and Disallowed Cost

The Requesting Member must adhere to all policies and procedures outlined in this guideline, as well as any agreed-upon alternatives or adjustments, prior to incurring any expenses. Any deviation from these agreed policies and procedures will be classified as a questioned cost, which may subsequently be disallowed by the ACT Secretariat.

When a questioned cost is identified, the ACT Alliance will engage with the management of the Requesting Member to review the matter. Expenses will be treated as disallowed costs if it is determined that the expense

- does not have a significant positive impact on the project,
- that prior approval or communication with the ACT Alliance should have been sought,
- that better alternatives were available

In such cases, the member must refund the disallowed amount to the ACT Alliance or its project, and this will be considered a breach of contract.

### Eligible Costs

- Incurred during the implementation of the action: costs relating to services and works shall relate to activities performed during the implementation period.
- Indicated in the estimated overall budget for the action.
- Necessary for the implementation of the action.
- Identifiable and verifiable, particularly recorded in the beneficiaries' accounting records and determined according to the accounting standards and the usual cost accounting practices applicable to them.

- Compliant with Accounting Standards.
- Comply with requirements of applicable tax and social legislation.
- Reasonable, justified, and compliant with sound financial management requirements, particularly regarding economy and efficiency.

### Non-eligible Costs

refers to expenses that cannot be covered under a specific Appeal or funding agreement

- Actual/real costs incurred by the participants or affiliated entity
- Provisions for losses, debts, or potential future liabilities
- Debts and debt service charges (interest)
- Non-budgeted Cost
- over-expenditure of 10% or more on any specific budget sub-line item without taking prior approval
- Costs declared and financed by another action
- Cost reported as question cost by the auditor
- Currency exchange losses
- Credits to third parties
- Fine and delay charges
- Supporting documentation does not adequately support the costs
- Gifts
- Excess indirect costs exceeding the maximum allowable limit of 15%

### External Audit

- The ACT Alliance requires the standard audited project financial report, which typically follows the guidelines set by the International Standards on Auditing (ISA) along with a management report.
- A chartered accountancy firm registered with The Institute of Chartered Accountants of the member country must audit the accounts of the ACT-funded project
- The Member must document the selection criteria and process. The members will prepare "Terms of Reference" for the audit, which will be the basis of the audit.
- The auditors must submit a management report along with the audited project financial statement to the member.
- The member should complete the audit within 90 days after the end of the project ending date.
- The member should submit a scanned copy of the original signed audit report and management report to the ACT.
- The members should prepare an audit action plan within 30 days of receiving the audit report based on the management letter. Members will send a copy of the audit action plan to the ACT secretariat. The ACT finance team will review the status of the action plan during the monitoring visit.

### References and Templates

[Anti-Fraud and Corruption Policy](#)