Purpose from the document:

The level of projects IDLO implements through beneficiaries is steadily increasing. With this increase comes the responsibility to monitor program activities to minimize risk, obtain reasonable assurance that funds are used as approved and that we are in compliance with donor rules and regulations.

Therefore, all organizations that receive funding from IDLO must accept and follow certain guidelines, regulations, and rules. This is to ensure an open, accountable, and transparent system for managing activities and expenditures.

IDLO FINANCIAL GUIDELINES, REGULATION AND RULES FOR IMPLEMENTING PARTNERS & SUB GRANTEES

Contents

INTRODUCTION

These are uniform administrative requirements for implementing partners including sub-grantees working with IDLO.

IDLO is responsible for monitoring implementing partners activities when using IDLO provided funds to give reasonable assurance that they are in compliance with laws, regulations and the provisions of contracts or grant agreements as well as to ensure performance goals are achieved. These guidelines are therefore mandatory for any implementing partners or sub-grantees that wish to work with IDLO.

PRE-AGREEMENT REQUIREMENTS

The recipient must relate information to demonstrate effective financial management including internal controls as well as cost effective practices (e.g., through unit cost data).

- Externally audited financial statements including management letters for the last three years of operation.
- Annual reports that reflect the efficient use of resources to achieve pre-set objectives.
- Financial guidelines used by the organization.
- Procurement guidelines followed by the organization.
- Data related to key officers of the organization including those with permission to access funds from bank accounts.
- Details of bank accounts in the name of the organization that funds will delivered to with details of the officers authorized to withdraw funds from the account (any changes in personnel after signing the agreement must be notified to IDLO within one month of the new persons being added).

FINANCIAL MANAGEMENT

The Sub grant's financial management systems, including records documenting compliance with relevant local laws, regulations, and the terms and conditions of the agreement, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditure adequate to establish that such funds have been used according to the terms and conditions of the agreement.

The financial management system must provide for the following:

(1) Identification, in its accounts, of all agreements received and expended and the programs under which they were received. Agreement identification must include, as applicable, the title and number (agreement identification number) and year.

(2) Accurate, current, and complete disclosure of the financial results of each program in accordance with the reporting requirements

(4) Effective control over, and accountability for, all funds, property, and other assets. The implementing partner must adequately safeguard all assets and ensure that they are used solely for authorized purposes.

(5) Comparison of expenditures with budget amounts for each agreement.

(6) Written procedures to implement the requirements of Payments.

(7) Written declaration regarding compliance with procedures for determining the allowability of costs in accordance with cost principles included in the terms and conditions of the agreement. Noting that overhead rates must be approved by IDLO in advance. Pre-existing agreements with other donors to charge overheads at certain rates such as NICRA do not apply.

(8) Commitment to reporting according to approved reporting templates and timelines in the agreement.

POST-AGREEMENT REQUIREMENTS

FINANCIAL MANAGEMENT

Records that identify adequately the source and application of funds for IDLO funded activities. These records must contain information pertaining to agreements, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest. In all cases IDLO will demand that all transactions are supported by source documentation.

INTERNAL CONTROLS

The implementing partner must:

(a) Establish and maintain effective internal control over the agreement that provides reasonable assurance that the implementing partner will manage the agreement in compliance with local government statutes, regulations, and the terms and conditions of the agreement.
(b) Demonstrate that all officers with access to funds are suitably qualified including background checks.
(c) That adequate segregation of duties exists in financial decisions including having two signatories for all payments.
(d) Demonstrate that the organization takes prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
(e) Take reasonable measures to safeguard protected personally identifiable information and other information the agreement

(f) agency or implementing partner designates as sensitive or the implementing partner considers sensitive consistent with applicable state and local laws regarding privacy and obligations of confidentiality.

FINANCIAL ACCOUNTING AND REPORTING

- The implementing partner shall keep accurate and regular accounts of the implementation of the action using appropriate accounting and double-entry book-keeping system.
- The implementing partner will ensure that any financial report as required in the contract can be properly and easily reconciled to the accounting and bookkeeping system and other relevant records. For this purpose, the implementing partner shall prepare and keep appropriate reconciliations, supporting scheduled, analyses and breakdowns for inspection and verification.

COST PRINCIPLES

The application of these cost principles is based on the fundamental premise that:

(a) The implementing partner is responsible for the efficient and effective administration of the IDLO agreement through the application of sound management practices.

(b) The implementing partner assumes responsibility for administering IDLO funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the IDLO agreement.

(c) The implementing partner, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques that may be necessary in order to assure proper and efficient administration of the IDLO agreement.

(d) The application of these cost principles should require no significant changes in the internal accounting policies and practices of the implementing partner. However, the accounting practices of the implementing partner must be consistent with these cost principles and support the accumulation of costs as required by the principles and must provide for adequate documentation to support costs charged to the IDLO agreement.

(e) In reviewing, negotiating and approving cost allocation plans or indirect cost proposals the implementing partner will ensure that cost accounting principles are applied in a consistent basis during their review and negotiation of indirect cost proposals. Where wide variations exist in the treatment of a given cost item by the implementing partner, the reasonableness and equity of such treatments should be fully considered.

(f) The implementing partner may not earn or keep any profit resulting from IDLO financial assistance.

PRINCIPLES FOR APPLICATION OF COSTS

These principles must be used in determining the allowable costs of work performed by the implementing partner under IDLO agreements.

Eligible costs are actual costs incurred by the implementing partner which meet all the following criteria:

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- They are incurred during the implementation of the action as specified in the contract / agreement.
    - Services and works – relate to activities performed during the implementation period.
    - Supplies – relate to delivery and installation of items during the implementation period. Signature of a contract, placing an order or entering any commitment for expenditure within the implementation period for future delivery of goods, services, works or supplies after expiry of the implementation period do not meet this requirement.
    - Cash transfers between IDLO and the implementing partner may not be considered as costs incurred.
    - All costs incurred must be listed in the final financial report.
- Are indicated in the overall budget for the agreement.
- Are necessary for the implantation of the agreement.
- Are identifiable and verifiable, being recorded in the accounting records and determined according to the accounting standards and cost accounting practices of the implementing partner.
- They comply with the requirements of applicable local tax and social legislation.
- They are reasonable, justified and comply with the requirements of sound financial management, regarding economy and efficiency
- The agreement may not produce a profit for the beneficiary.

FACTORS AFFECTING ALLOWABILITY OF COSTS.

Costs must meet the following general criteria to be allowable under IDLO agreements:

(a) Be necessary and reasonable for the performance of the IDLO agreement and be allocable thereto under these principles.

(b) Conform to any limitations or exclusions set forth in these principles or in the IDLO agreement as to types or amount of cost items.

(c) Be consistent with policies and procedures that apply uniformly to both IDLO financed and other activities of the implementing partner.

(d) Be accorded consistent treatment. A cost may not be assigned to an IDLO agreement as a direct cost if any other like circumstances has been allocated to the IDLO agreement as an indirect cost.

(e) Be determined in accordance with generally accepted accounting principles (GAAP).

(f) Not be included as a cost or used to meet cost sharing or matching requirements of any other IDLO financed program in either the current or a prior period.

(g) Be adequately documented.

REASONABLE COSTS.

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the implementing partner is predominantly IDLO funded. In determining reasonableness of a given cost, consideration must be given to: -

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the implementing partner or the proper and efficient performance of the IDLO agreement.

(b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; IDLO regulations; and terms and conditions of the IDLO agreement.

(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the implementing partner, its employees, the public at large, and the local government.

(e) Whether the implementing partner significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the IDLO agreement cost.

ALLOCABLE COSTS.

(a) A cost is allocable to a particular IDLO agreement or other cost objective if the goods or services involved are chargeable or assignable to that IDLO agreement or cost objective in accordance with relative benefits received.

This standard is met if the cost: -

(1) Is incurred specifically for the IDLO agreement.

(2) Benefits both the IDLO agreement and other work of the implementing partner and can be distributed in proportions that may be approximated using reasonable methods; and

(3) Is necessary to the overall operation of the implementing partner and is assignable in part to the IDLO agreement in accordance with the principles in the contract.

(b) All activities which benefit from the implementing partners indirect cost, including unallowable activities and donated services by the implementing partner or third parties, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to a particular IDLO agreement under the principles provided for in this part may not be charged to other IDLO agreements to overcome fund deficiencies, to avoid restrictions imposed by IDLO regulations, or terms and conditions of the IDLO agreements, or for other reasons. However, this prohibition would not preclude the implementing partner from shifting costs that are allowable under two or more IDLO agreements in accordance with existing IDLO regulations, or the terms and conditions of the IDLO agreements.

(d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under an IDLO agreement, the costs are assignable to the IDLO agreement regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required.

DISALLOWED COSTS

- Fines and penalties.
- Costs incurred on alcoholic beverages.
- Bad debts.
- Defence and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.
- Entertainment costs.
- Gifts.
- Fund raising and investment management costs.
- Fines, penalties, damages, and other settlements.
- Goods or services for personal use.
- Air travel costs other than in economy class.
- Costs for collection of improper payments.
- Fraud costs.
- Personal costs.
- Pre-agreement costs.
- Foreign exchanges losses.
- Losses due to banks insolvency.

PAYMENTS

Payments methods must minimize the time elapsing between the transfer of funds from IDLO to the implementing partner and the disbursement by the implementing partner whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

PERIOD OF PERFORMANCE

Only allowable costs incurred during the period of the contract will be permitted unless specific written approval is given to allow costs incurred before the contract start date.

PROPERTY MANAGEMENT

The implementing partner is responsible for insurance coverage of real property and equipment acquired or improved with funds provided.

RECORD RETENTION AND ACCESS

The implementing partner shall keep all records, accounting and supporting document related to the agreement for seven years following the payment of the final balance and in any case until any on-going audit, verification, appeal, litigation or pursuit of claim has been disposed of. All the supporting documents shall be available either in the original form, including in electronic form, or as a copy.

The documents referred to include: -

- Accounting records from the beneficiaries accounting system such as general ledgers, sub ledgers, payroll accounts, fixed assets registers, cost allocation document and other relevant accounting information.
- Proof of procurement procedures such as tendering documents, bids from tenderers and evaluation projects
- Proof of commitments such as contracts and purchase order forms

- Proof of delivery of services such as approved reports, times sheets, transport tickets, proof of attending seminars, conferences, and training courses – including relevant documentation and material obtained, certificates.
- Proof of receipt of goods such as delivery slips from suppliers
- Proof of completion of works such as acceptance certificates
- Proof of air travel such as boarding passes
- Proof of purchase such as invoices and receipts
- Proof of payment such as bank statements,
- Proof that taxes and/or VAT that have been paid cannot be reclaimed
- For fuel and oil – a vehicle log / register showing a summary of distance covered, average consumption of the vehicles used, fuel costs and maintenance costs.
- Staff and payroll records such as contracts, salary increments and timesheets. For national staff, remuneration paid broken down into gross salary, social security charges, insurance, and net salary.

Financial records, supporting documents, statistical records, and all other implementing partner records pertinent to an IDLO agreement must be retained for a period of seven years from the date of submission of the final expenditure report or, for IDLO agreements that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to IDLO or implementing partner in the case of a subrecipient. IDLO and implementing partners must not impose any other record retention requirements upon sub-grantees. The only exceptions are the following:

(a) If any litigation, claim, or audit is started before the expiration of the 7-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.

(b) When the implementing partner is notified in writing by IDLO to extend the retention period.

(c) Records for real property and equipment acquired with IDLO funds must be retained for the same period as other documents.

(d) When records are transferred to or maintained by IDLO, the 7-year retention requirement is not applicable to the implementing partner.

(e) Records for program income transactions after the period of performance. In some cases, recipients must report program income after the period of performance. Where there is such a requirement, the retention period for the records pertaining to the earning of the program income starts from the end of the implementing partner’s fiscal year in which the program income is earned.

(f) Indirect cost rate proposals and cost allocations plans. This paragraph applies to the following types of documents and their supporting records: indirect cost rate computations or proposals, cost allocation plans, and any similar accounting computations of the rate at which a particular group of costs is chargeable.

ACCESS TO RECORDS.

The implementing partner shall allow verification to be carried out by IDLO, IDLO Internal Auditor, IDLO External Auditor and the principal donor authorized by IDLO.

The implementing partner shall allow the above to: -

- Access the sites and locations at which the agreement is implemented
- Examine its accounting and information systems, documents and data bases concerning the technical and financial management of the agreement
- Take copies of documents
- Carry out on the spot checks
- Conduct a full audit based on all accounting documents and any other documents relevant to the financing of the agreement.

IDLO or any of their authorized representatives, must have the right of access to any documents, papers, or other records of the implementing partner which are pertinent to the IDLO agreement, in order to make audits, examinations, excerpts, and transcripts. The right also includes timely and reasonable access to the implementing partners personnel for the purpose of interview and discussion related to such documents.