



Somaliland Development Fund (SDF)

Financial Management and Accounting Manual

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List of Abbreviations

CAB	Crown Agents Bank
GoSL	Government of Somaliland
NDP	National Development Plan
PMT	Project Management Team
SDF	Somaliland Development Fund

1. Introduction

The Somaliland Development Fund (SDF) is designed to support the Government of Somaliland (GoSL) to fill a critical gap through funding projects that are fully aligned to the National Development Plan (NDP) 2012-2016, while at the same time recognizing the role of GoSL in the delivery of basic services. The Fund supports recurrent and capital costs. The SDF will also support GoSL's communication of results to build accountability and transparency. Furthermore, the SDF is designed to strengthen the state-citizenship relationship and enhance accountability and domestic revenue generation. This, in turn, should lead to more stability and prosperity in Somaliland.

The day-to-day management of the SDF is entrusted to a Fund Manager providing the Secretariat of the Somaliland Development. The Secretariat has full responsibility for managing the process of project identification, procurement, monitoring and evaluation, financial management, communication, knowledge management and coordination of technical assistance and auditing activities.

The SDF foresees a gradual hand-over of roles and responsibilities from the Fund Manager to the GoSL. Based on GoSL meeting PFM-benchmark, roles and responsibilities for financial management and accounting may be gradually transferred. For the moment the Secretariat is required to establish the SDF financial management and accounting procedures and systems.

This Financial Management and Accounting Manual provides the financial policy, procedures and guidance required to manage the financial activities of the Somaliland Development Fund. It is expected that this Manual will evolve over time based on the expected gradual hand-over of the management of the Fund by the GoSL.

The SDF has two main budget categories:

- Fees and Expenses for the Fund Manager;
- Programme Funds for projects implemented by Government.

This manual specifically deals with financial management and accounting for Programme Funds.

2. Basic principles of financial management and accounting in the SDF

The SDF Secretariat has the fiduciary responsibility for all funds of the SDF. As such, the Secretariat must ensure that funds are used for their intended and specific purposes. To this end, all funds should be administered and supervised in accordance with due diligence to economy, efficiency and effectiveness, and compliance with the financiers' financial management policy and guidelines.

The basic principles of the SDF Financial Management and Accounting are to:

- Ensure all transactions and balances relating to the Fund are recorded correctly and completely;
- Ensure that funds are used only for their intended purposes in an efficient and economical way;
- Ensure that funds are properly managed and flow smoothly, adequately, regularly and predictably in order to meet the objectives of the fund;
- Enable the preparation of accurate and timely financial reports to provide the SDF with information it needs to meet its fiduciary responsibilities;
- Enable fund management to monitor the efficient implementation of the projects;
- Safeguard the Fund's assets and resources.

3. Banking arrangements

The SDF will maintain two bank accounts:

1. The SDF Main Account is held at Crown Agents Bank (CAB) in the name of Somaliland Development Fund. This account will receive all contributions from Development Partners contributing to the SDF. The account is maintained in GBP;
2. The SDF Local Account will be held at Dahabshil Bank International in Djibouti. The account will be accessed through Dahabshil International Bank in Hargeisa in the name of BMB Mott MacDonald – SDF Account. This account is maintained in USD. This Account will be replenished through the SDF Main Account held at CAB.

The Finance Manager will prepare bank reconciliation not later than 5 working days after receiving the bank statements. The Fund Manager will ensure that the reconciliation of the account balances to the cashbook. All bank reconciliations will be prepared by Finance Manager and reviewed and approved by the Fund Manager. This needs to be signed and dated as evidence of review and approval by the Fund Manager.

4. Donor Contributions

The SDF is funded by contributions from Development Partners. The SDF maintains an account at Crown Agents Bank (CAB) for all contributions. This account is maintained in GBP.

Each Development Partner will communicate its planned funding level for the SDF at least 12 weeks before the next financial year, which is calendar year based. Disbursement by Development Partners to the SDF Main Account will be made upon receipt and approval of written disbursement requests from the SDF Secretariat.

5. Expenditures

5.1 Approval Process

5.1.1 Expenditures of Implementing Partners

Expenditures of Implementing Partners are composed of consultancy fees, contractors for works, supplies, and grants. Only expenditures against approved projects are eligible for payment and committed through appropriate Local Purchase Orders, Contracts, Agreements etc issued by the SDF Secretariat.

Implementation Partners shall raise invoice for services, goods and works contracted by the SDF and submit this original copy of invoice to the Project Manager of the Government Project Holder for approval and the copy of invoice to SDF Secretariat.

The Project Manager shall verify that goods, works and services have been delivered as contracted. The Project Manager will forward a Payment Request with the approved original Invoice copy together with all relevant supporting documents to the SDF Secretariat. The detailed procedure is outlined in the Finance and Accounting Manual – Annex 01.

The Finance Manager will review the Payment Request and supporting documents in consultation with Procurement Manager and M&E manager. The Finance Manager will prepare a Payment Voucher and check correctness of the invoice and supporting documents. The Finance Manager submits the Payment Voucher to the Fund Manager and Deputy Fund Manager for approval – authorising now for payment. The actions and responsibilities are summarized below:

No	Expenditure Process	Responsibility
1	Implementing Partner raises Invoice	Implementing Partner
2	Checking of invoice and raising of Payment Request	Project Manager
3	Secretariat receives Payment Request	Office Manager
4	Preparing PV if invoice is correct in all respect <ul style="list-style-type: none">• contract• supporting documents• authorities in all supporting documents e.g. LPO	Finance Manger
5	Approval of PV to authorize payment	TL and DTL

5.1.2 Expenditures of Project Holders

To facilitate the functioning of the Programme Management Team (PMT), the SDF Secretariat will entrust the Project Holder with an Operating Fund up to a maximum of USD 1,000. This amount will be recorded as an advance/initial deposit for that specific PMT. The detailed procedure is outlined in the Finance and Accounting Manual – Annex 02.

5.2 Disbursement methods

All disbursements are processed on the basis of approved Payment Vouchers. The SDF Secretariat has the following payment methods:

For Contractors/suppliers/consultants having accounts connected to the SWIFT system:

- Payment through Crown Agents Bank from the Main Account directly into the Implementing Partner's bank account by issuing an instruction letter signed by two approved signatories;
- Payment from Local Account through Transfer Letter in the name of the Implementing Partner or Project Holder;

For Contractors/suppliers/consultants having accounts not connected to the SWIFT system:

- Payment from Local Account through Transfer Letter in the name of the Implementing Partner or Project Holder;
- Payment from Local Account through Cheque in the name of the Implementing Partner or Project Holder;
- Payments from Local Account / Petty Cash for Government Officials participating in activities related to Project Development (field visits, etc.).

6. Accounting and records

6.1 Accounting

The SDF Secretariat is required to maintain an accounting system which can record and report on all commitments, income and expenditures. The system should be able to ensure separate tracking of funds for the various projects being implemented.

The SDF accounts are maintained on double entry accounting basis.

The accounts are denominated in US Dollars and British Pounds.

The accounts are maintained on the cash receipts and payment basis. On this basis, cash receipts are recognised when received and cash expenditures are recognised when paid rather than when incurred.

The SDF Secretariat uses a Chart of Account to facilitate timely generation of periodic financial management reports allowing for disaggregation of expenditures.

6.2 Records

The SDF Secretariat maintains the books of accounts manually and electronically, at least as stated below:

- Bank and Cash Book;
- General Ledger;
- Cheque Register;
- Commitment Register;
- Project Register;
- Fixed Assets Register.

SDF shall prepare Payment Vouchers for all transactions with evidence in support of the transactions attached to each payment voucher. Supporting documents are the original bills, invoices, contracts and receipts supporting a transaction.

For all transaction, pre-numbered payment vouchers are applied. However, should this not be possible at the time of the transaction, the voucher number should be given at the time of preparing the vouchers.

As SDF has computerized accounting system, systematic backup system is done regularly so that the accounting data can be restored in case of any malfunction of the storage and retrieval systems.

7. Reports

The SDF Secretariat will prepare the following monthly, quarterly and yearly reports providing an overview of the financial status of the Fund:

- Donor – Commitments;
- Donor – Disbursements;
- SDF Projects – Commitments;
- SDF Projects – Approved Projects;
- SDF Projects – Expenditures;

8. Internal control and audit

8.1 Internal control

The internal control system will be compatible to provide reasonable assurance that:

- SDF financial reports are reliable;
- SDF operations are effective and efficient; and
- SDF activities comply with applicable fiduciary risk management.

The Finance manager will ensure that the controls are reviewed consistently in line with newly developed project document and communicated to all stakeholders. The Fund Manager will ensure that the controls are implemented and followed by all stakeholders.

The internal controls will be categorized following the below specific areas:

- Accounting Records;
- Income/Funding;
- Disbursement/Expenditure;
- Bank Accounts;
- Cash Transportation; and
- Physical Controls of Inventories.

The detailed procedure is outlined in the Finance and Accounting Manual – Annex 03.

8.2 Auditing Requirements

The Joint Steering Committee will commission an annual financial audit of the SDF. The JSC will request the SDF Secretariat, through funds within the SDF, to contract an annual independent audit. Auditing services will be procured from a reputable audit company and will be conducted in accordance with international recognized auditing standard of the IFAC Code of Ethics for Professional Accountants, which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.

Annex 1. Detailed criteria for payments

Delivery of works and criteria of payments

Payments for works are normally made in stages, unless the work is very small such as minor repairs etc., the construction plan and the contract will have clearly stipulated various stages at which payments can be made. This could for instance be a certain percentage of the works item being complete. The contractor also issues a certificate of works at each interval. Project/program implementers must carefully compare the certificate of works with the construction plan and the contract. Also physical inspection of the works item must be carried out in order to establish its genuine status. Project/Program implementers must be satisfied with all of these conditions before they request the contractor to provide an invoice/certificate of payment relating to the completed stage of the construction activity.

Payment for works will be categorized as follows:

1. **Advance payment** – Payment made after the contract is awarded to the supplier/ contractor depend on the percentage specified in the contract. This payment will be issued only on condition that the supplier/contractor provides the guarantee/security which is equivalent to the amount request as an advance. The legally accepted guarantees/security are either bank or insurance generated documents. Any advances will be settled against future payments.
2. **Interim Payment** – Depending on the nature of the contract there may be multiple interim payments. The interim payment is normally requested in the course of execution of the work by the contractor/supplier. Interim payments are made against interim payment certificates and invoices raised by the contractor/supplier. Below are the required signatures to valid the certificate.
 - Contractor/supplier
 - Project Holder – Project Manager
 - Project Holder – Technical Assistant
 - SDF Secretariat – M&E Manager
 - SDF Secretariat – Procurement Manager;
3. **Final Payment** – Final payment will be done upon completion of the works and SDF has accepted the completion certification of the works by the independent evaluators.
4. **Retention** – Retention is normally a certain percentage of the total payment retained for a specific period as a warranty. This retention percentage and the period of release will always be stipulated in the contract.

Delivery of goods and criteria of payments

Payments for goods are normally made only after all goods have been delivered according to specifications in the contract/LPO. On receipt of goods and equipment from suppliers, they must immediately be verified by the Procurement Manager and/or other members of the Secretariat or PMT. The Procurement Manager must immediately notify the supplier of any irregularities (e.g. defects), if there are no irregularities, the receiving officer must sign the Good Received Note (GRN) or the Delivery Note (DN) and retain one copy.

The supplier's invoice must be compared to the Local Purchase Order and the Good Received Note / Delivery Note to verify that:

- the amount invoiced is correct; and
- goods received match with the description on the documents.

Depending on the nature of goods, sometimes the supplier may request for the advance payment for the ordered goods, this advance payment will only be done upon the provision of guarantee/security either from the bank or insurance as indicated above.

Final payment will be done when the goods are received, inspected and certificated that they are in good order by the SDF Procurement Manager/the receiving officer and invoice attached with all necessary supporting document or example contract, delivery note/good received note, acceptance either in form of the letter or his signature from the Procurement Manager on an invoice.

Delivery of services and criteria of payment

Payments for services are also phased. The service contracts will indicate the stages at which payments can be effected, linked to the delivery of specific outputs such as reports, training and installation of systems etc.

No advance payment is expected to be done for such contract because the first payment can be requested upon submission of inception report which is given before the actual implementation of the project/ work done.

Otherwise, all payment will done based on the specifications of the contract and LPO contents issued to the supplier/contractor/consultant.

Annex 2. Management of Project Holder Operating Fund

To facilitate the functioning of the Programme Management Team (PMT), the SDF Secretariat will entrust the Project Holder with an Operating Fund up to a maximum of USD 1,000.

This amount will be recorded as an advance/initial deposit for that specific PMT. Replenishments will be done upon satisfactory completion of the below procedures:

- PMT must prepare a Statement of Expenditure (SOE) together with the Request for Operating Advance. A Statement of Expenditure summarizes eligible expenditures incurred during a stated period, based on individual transactions;
- Original Payment Vouchers and supporting documents are attached to the Statement of Expenditure;
- PMT will be allowed to submit their Request for Operating Advance when 75% of available Operating Fund has been depleted.

In order to be eligible for managing the Operating Fund, the PMT must have the following:

- A dedicated account with a financial institution in Hargeisa;
- The administrative and accounting capability to prepare and maintain appropriate records, and make them readily available for verification;
- Adequate internal control systems to ensure procedures are followed;
- An appropriate authorisation procedure.

Annex 3. Internal Control Systems

1. Accounting records

- Accounting records are accurate and up to date, for example cash books are updated on regular basis so that, the bank and cash balance can be extracted whenever requested.
- Reports of expenditure against budget are prepared and reviewed on monthly basis.
- The external audit is conducted yearly. Quarterly Financial Management Assessment are carried out by the Finance manager to all implementing partners for the purposes of checks and balances. The Financial Management Assessment sessions increases the organizations capacity to check the systems regularly and to ensure that all accounting procedures are followed and in line with the expectations of financiers.
- Records are kept in sufficient detail to enable reporting to donors and identification of their fund balance.

2. Income/Funding

- All donor income is requested for as per signed agreement.
- All donor income is accounted for as per signed agreement.

3. Expenditure/Disbursement

- All expenditure are made against an approved budget and authorized by the budget holder (SDF) before the payment is made.
- A delegation of authority shows the authorized levels of expenditure for the delegation.
- All expenditure are supported by original invoices and receipts.
- Decisions regarding selection of suppliers is made by more than one person or internal procurement committee as prescribed in the procurement manual.

4. Bank Accounts

- Cheque payments are signed by minimum of two signatories mandated by this manual as follows; the Project Director, the fund manager/Team Leader, Finance Manager and Deputy Team Leader.
- Bank accounts are in the name of the Somaliland Development Fund.
- Bank reconciliations are prepared, checked and approved by the Team Leader/Deputy Team leader on monthly basis.
- Cheque books are kept in a locked place.

5. Cash Transactions

- Cash is locked up, and only Finance Manager have access to it.
- All cash transactions are recorded and posted in the system as soon as possible.
- Cash transactions are kept to a minimum i.e. not exceeding \$250 per transaction (Large amounts should always be paid by cheque director to the supplier/contractor).
- The cash is counted at least one a month by the Office Manager and the count controlled by and co-signed by the Finance Manager, to control that the actual cash agreed to the cashbook balance.

6. Physical Controls

- Vehicles, stock, cash, premises etc are kept secure and insured where appropriate. Use of project vehicles is monitored using logbooks where each journey is recorded. The finance Manager should check the logbooks on monthly basis.

Good financial management practice commands segregation of duties amongst projects/programs accounts/finance staff. To this end, the Finance Manager must ensure that there is clear segregation of duties amongst their staff with regards to:

- Withdrawals and deposits of cash;
- Reviewing/receiving bank statements and reconciling bank statements with cashbooks;
- Approving purchases/payments and issuing cheques.

The Finance Manager must maintain a separate file for each project/program, and file all payment vouchers together with all supporting documents in a sequential order.