

# FINANCIAL MANAGEMENT POLICY

This document defines the internal accounting procedures used by The Better Governance Project (TBGP). Its purpose is to ensure that financial statements are in conformity with generally accepted accounting principles, and that finances are managed responsibly and transparently.

All personnel with a role in the management of TBGP's fiscal operations are expected to uphold this policy. As a living document, this policy can be revised, with any revision be approved by the Governing Board.

This is version n. 1, approved by the Board on and effective from 17/01/2022.

## 1. Guiding principles

- Accounting Principles

Fiscal year: January 1<sup>st</sup> to December 31<sup>st</sup>

BAS-kontoplan: we use the general framework of the BAS-kontoplan, a chart of accounts is to be used in Sweden. This is used by about 95% of all companies and associations in Sweden.

Double entry: Every entry to an account requires a corresponding and opposite entry to a different account. The double-entry system has two equal and corresponding sides known as debit and credit. This reduces the risks of processing mistakes.

Continuity principle: The ending years must be linked to the starting year in the balance sheet. This is done by taking the closing balance in the balance sheet in year 1 and depositing it as the opening balance in year 2.

Comparability principle: Uniform principles for valuation, classification and division of the items in the accounts must be applied from year to year. The principle means i.a. that the organisation is not normally allowed to change accounting principles between the financial years because such changes disturb the comparability between different financial years.

Accrual principle (yearly): Revenue and expenditure are accrued at year-end to reflect unrecorded transactions that affect the year that ended. This is done to ensure that financial events are properly recognized by matching revenues.

- Accounting method

TBGP uses the "Faktureringsmetoden", the main method for current accounting in Sweden which gives a better picture of the organisation's financial position and results continuously during the year.

Invoices are posted on an ongoing basis so that outgoing invoices are entered in the accounts on the date they are issued and incoming invoices on the date they are received – i.e. on the invoice day or the day of arrival. At this stage, the invoice is posted as a trade receivable or an account payable. At the same time, the VAT is reported to Skatteverket. When the invoice is paid, a new transaction reflecting this action is booked.

- Payment authorisation

Payment authorisation at TBGP is done according to the Dual Approval principle. As the name implies, Dual Approval is a control that requires two separate people to authorize a transaction. The first person is responsible for creating the request (here the Head of Operations), while the second person checks and approves the transaction (here the Executive Director).

Dual Approval helps to protect the organisation from different type of risks such as processing errors, internal fraud or payment scams.

## 2. Financial system

- Bank accounts

Danskebank has been selected as TBGP’s bank for its quality of services, the possibility of transfer to countries that we foresee being countries of operation, and good value for money. TBGP’s account at DanskeBank includes:

- a current account
- a savings account
- online bank service with secured and personalised authentication (allows for dual approval)
- Swish number to receive donations and membership payments.

The currency of the accounts is SEK. All transactions in foreign currency are automatically converted into SEK at the rate of exchange prevailing on the transaction date. Accounts in other currencies (e.g. EUR, USD) may be opened in the future if needed.

- Accounting system

The accounting system selected for TBGP is Fortnox, a cloud-based system specialised for small organisations in Sweden. The system allows us to register financial entries, generate income statements and balance sheets, calculate VAT returns as well as handle salaries (calculate gross and net salaries, social costs, generate payment slips etc).

The books are separated into two main categories corresponding to the “bidrag” part and the “näringsverksamhet” part of the operations. Each entry can then also be registered under subcategories corresponding to projects.

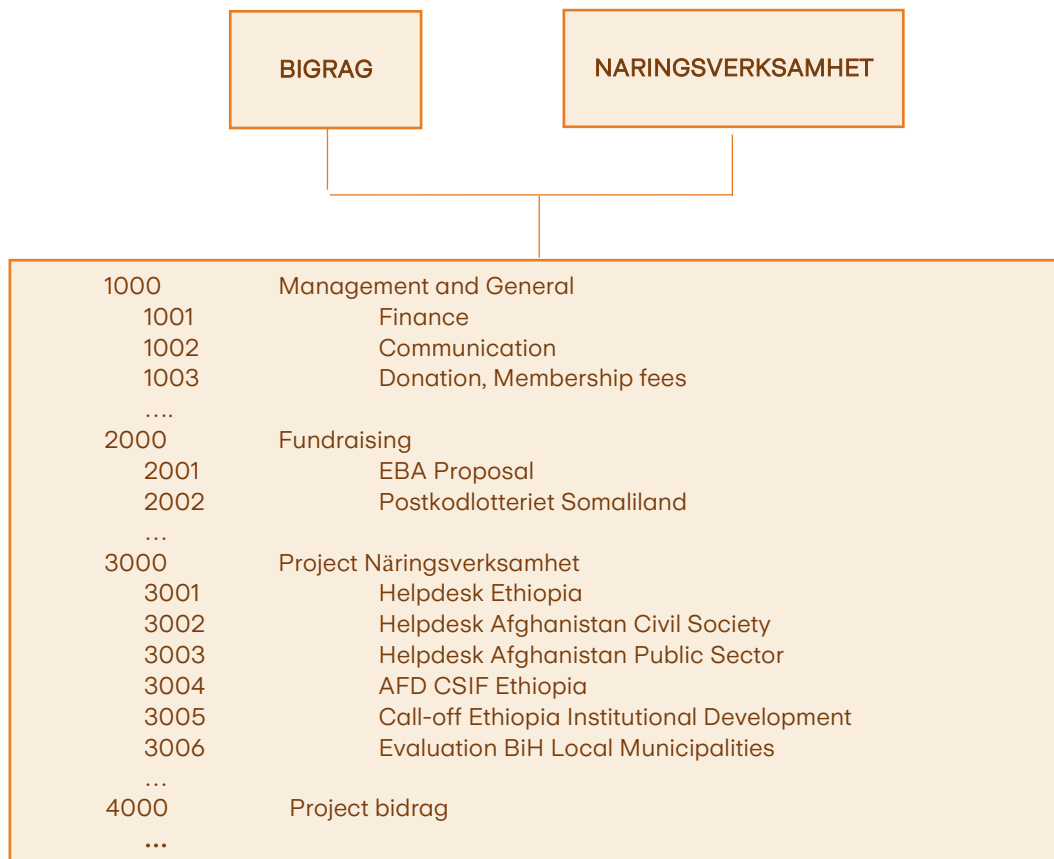


Figure 1 Accounting system chart



- Principles for accounting under the categories “Bidrag” and “Näringsverksamhet”

The category “Bidrag” corresponds to projects financed by grants from Sida, foundations or other organisations, whereas the category “Näringsverksamhet” corresponds to commissioned assignments. The two categories can be differentiated as follows:

- A grant is something given to meet a need, where funds are received without any requirement for consideration. This means that the provider of the grant does not expect to receive specific goods, services or special benefits in return. Grants are tax exempted.
- A commissioned assignment is remunerated by invoicing a fee for a specific service, skill and/or expertise. These types of assignments often involve Terms of Reference and a call for tenders or bid to respond. Commissioned assignments are taxable.

In TBGP accounting, the following principle should be followed to register entries under each category:

- Employee costs should be divided depending on the project they are working on. When working on operational matter that do not belong to a specific project, the time should be divided according to the approximate proportion of each category in the yearly income.
- Inventory should be registered depending on the project it will be used for/are financed by or according to the approximate proportion of each category in the yearly income for the organisation’s inventory.
- General organisation expenses should be recorded according to the approximate proportion of each category in the yearly income

### **3. Division of duties**

- Governing Board

A key role of the board is oversight on financial management and it has overall responsibility for the financial health of the organisation. Their specific duties are to:

1. The review and approval of annual financial reports.
2. The review and approval of the organisation’s annual budget.

In addition, the Chairperson in particular has the following duties:

1. Review and approval of all contracts that exceed SEK 500,000.
2. Authorisation of expenditures in excess of SEK 100,000, except preapproved capital expenditures (e.g. rent) which might exceed SEK 100,000.

- Executive Director

The Executive Director has responsibility over day-to-day financial management of TBGP, which includes the following duties:

1. Review and approval of all supporting documents, invoices, reimbursements, and payments.
2. Review of the payroll summary to ensure that the employee, hours worked, and amount are correct.
3. Review and approval of all financial reports.
4. Review of all bank reconciliation statements.
5. Together with the Head of Operations, and with input from the Director, development of the annual budget.
6. Review and approval of all contracts below SEK 500,000, and together with the Chairperson contracts that exceed SEK 500,000.
7. Authorisation of expenditures below SEK 100,000, and together with the Chairperson expenditures in excess of SEK 100,000.

- Head of Operations

The Head of Operations has primary responsibility for the planning, implementation, managing and running of all the finance activities of TBGP. This includes:

1. Managing the bank account and liquidity of the organisation.
2. Reconciliation of the bank accounts and preparation of monthly reconciliation statements.
3. Managing the processes for financial forecasting and budgets, and overseeing the preparation of all financial reporting.
4. Providing strategic recommendations to the Executive Director and advising on long-term business and financial planning.
5. Processing all receipts and disbursements and verification of all reimbursement requests against receipts provided.
6. Processing the payroll, including payroll tax returns, social taxes and related declarations to Skatteverket.
7. Together with the Executive Director, and with input from the Director, development of the annual budget.
8. Facilitation of the annual audit.

- **Director and other Staff**

The Director and other TBGP staff must provide supporting documents for project expenditure (such as receipts) and income (such as invoices).

Each staff must also submit the necessary information in a timely manner for the payment of salaries (see section on salaries).

## **4. Income**

TBGP has three different sources of incomes: grants, invoices from consulting assignments and donations and membership fees.

Payments from grants must be registered by the Head of Operations into the accounting system on the disbursement date.

All invoices issued to clients should be sent to the Head of Operations, which shall register them into the accounting system on the issue date.

Donations and memberships are voluntary and TGP reserves the right to refuse a donation if the donor's values and type of activity do not match the organisation's vision and values. Donations and membership fees must be registered by the Head of Operations in the system in their respective categories. Income from donations and membership fees must be used only for TBGP organisational expenses.

Once monthly, the Head of Operations will check the invoice log to determine if there are any outstanding invoices which have not yet been paid. If so, the Head of Operations will investigate with the responsible staff to understand the reason of delay and resolve the issue.

## **5. Disbursement**

- **One-off payments**

1. All incoming invoices must be sent to the Head of operations.
2. The staff person responsible for ordering the product or service must check the validity of the invoice against proposals/bids, etc. All incoming invoices must be approved by at least two persons in the organisation. For invoices above 10 000 SEK, these must be approved by the Executive Director
3. The Head of Operations is responsible for entering the invoice into the accounting system after verification of the invoice and any supporting documents, and for issuing the payments.

4. Once monthly, the Head of Operations will check the invoice log to check all invoices have been processed in time.

- Recurring payments

In the case of recurring payments, such as rent or bank charges, steps 1 to 4 above must be followed at the first instance of the payment, with an indication of the length of the rolling period. Consecutive invoices for the same service/product do not require further approval and the invoice can be processed by the Head of Operations directly. Final approval of the payment will be made by the Executive Director in the online bank, on a double approval basis.

## **6. Payroll**

The Head of Operations is responsible for processing payroll. They are responsible for entering the information into the accounting system, keeping track of sick and vacation days, and preparing the payslip and related payments.

- Payroll Preparation and Timekeeping

1. Vacation, sick days are to be reported by all full-time staff by the last day of each month into the accounting system. For time-based contracts, staff must report their working hours monthly in the accounting system by the last day of the month at the latest. In both cases, expense reports with supporting documents should be submitted by the 20<sup>th</sup> for reimbursement the same month and at the latest by the 20<sup>th</sup> of the following month.

Supporting documents for expenses must be submitting in original when they were received in original. If the receipt was received electronically, an electronic copy is sufficient. To be valid, receipts must include:

- a. Date of issue
  - b. Identification of the vendor (with the vendor's VAT number)
  - c. Type of goods or services sold
  - d. VAT paid (or information to calculate VAT)
  - e. For expenses exceeding 4 000 SEK, the receipt must be an invoice and it must be addressed to The Better Governance Project.
2. The Head of Operations should then process the information and report it to the accounting system. The information reported should include:
    - a. Hours worked
    - b. Changes in pay rates or employment status
    - c. Vacation, sick or personal hours used and earned
  3. Payment slips are to be prepared by the Head of Operations based on the information in the accounting system. They must include:
    - a. Name of the employee
    - b. Date of payment
    - c. Gross salary
    - d. Tax and social charges
    - e. Net salary
    - f. Expenses reimbursed, if any.
  4. The Executive Director should review the payroll summary page and approve it for payment.
  5. Salary payment shall be made by the Head of Operations on the 25<sup>th</sup> of each month, or the nearest preceding bank day if the 25<sup>th</sup> is on a weekend or a holiday.

## **7. Bank Reconciliations**

The Head of Operations shall maintain a record of all bank transactions in the accounting systems (books). On a monthly basis, the Head of Operations shall reconcile the bank statements to the books, and notify the Executive Director of any discrepancies.

The Executive Director will resolve all discrepancies with the assistance of the Head of Operations, and the bank, if necessary. The Head of Operations will adjust the books as needed. The Board will be notified in the case of any material discrepancies that affect the organisation.

## **8. Budget**

Yearly budgets are to be prepared by the Head of Operations together with the Executive Director, and with input from the Director.

A result budget and a liquidity budget should be prepared annually and with a follow-up prepared quarterly.

## **9. Investment policy**

Investments are not allowed until the organisation has obtained 3 MSEK in own equity, which is the minimum amount to cover the current organisation's operational costs.

A formal investment policy will be developed once the organisation has achieved this financial security. Any surpluses before the policy is developed and approved will be kept in a savings account at DanskeBank.

## **10. Financial Reporting**

- Quarterly Reports:

The Head of Operations should prepare a set of financial reports for distribution to the Executive Director and the Board in preparation of each Board Meeting and the Annual Meeting.

The reports should include: a statement of income and expenses, a budget-to-actual report, and a cash flow projection.

- Year-End Report/Audit:

At fiscal year-end, a year-end report should be prepared by the Head of Operations, summarising the total income and expense activity for the year.

It is the policy of TBGP that the organisation's financial statements must be audited by an independent accounting firm. The independent accounting firm shall be selected at the preceding Annual Meeting.

Audited financial statements, including the auditor's opinion thereon, will be submitted and presented to the Board of Directors at the Annual Meeting, after the financial statements have been reviewed and approved by the Executive Director and Head of Operations.