

Financial Management Systems Manual

Chilungamo II

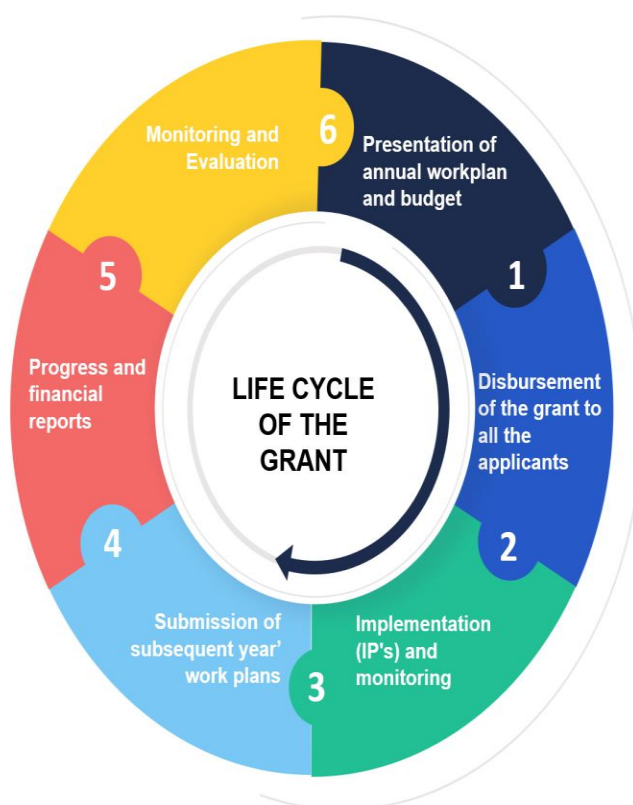


TABLE OF CONTENTS

INTRODUCTION	7
Purpose of the manual	7
Scope of the Manual	7
Users of the Manual	7
1. Background of the Programme.....	7
1.1. General Background	7
1.2. Overall Objective of Chilungamo II Programme	7
2. Chilungamo II (Access to Justice) Programme	8
2.1. The Lead Applicant	8
2.2. The Logical Framework.....	8
2.3. Result-Based Management	8
4. Planning and Budgeting.....	9
4.1 Budget Preparations	9
4.2 Rules on budget changes	9
5. Financial Management Cycle of the Grant.....	10
5.1 Initial Presentation of Annual work plans and budget.....	10
5.2 Disbursement of the Grant to all the Applicants.....	10
5.3 Implementation and Monitoring.....	10
5.4 Submission of subsequent Work plans	Error! Bookmark not defined.
5.5 Submission of Progress and Financial Reports	10
5.6 Submission of Workplans and Budgets for Subsequent Year.....	Error! Bookmark not defined.
5.7. Cash Balance.....	10
5.8. Justification for the budget adjustments and new activities.....	10
5.9. Key dates to the grant cycle	11
5.10. Budget Monitoring and Implementation.....	11
5.10.1 Disbursements of Funds	11
5.10.2 Expenditure tracking	11
5.10.3 Periodic reviews	11
5.10.4 Internal controls.....	12
6. Banking Arrangements.....	13
6.1 Ministry of Justice.....	13
6.2 Implementing Partners	13
6.3 Funds Flow.....	13
6.4. Disbursements.....	14
6.5 First Disbursement	14

6.6 Second and subsequent disbursement	14
7. Financial Policies and Standards	14
7.1 The Programme Financial Year	14
7.2 Basis of Accounting and Accounting Standards.....	14
7.3 Currency of Recording and Reporting	15
7.4 Foreign Currency Transactions	15
7.5 Exchange Gains.....	15
7.6 Recording of exchange gains.....	15
7.7 Separate Accounts	15
8. General Ledger Set Up	15
8.1 Chart of Accounts	15
8.2 Financial Accounting System	16
8.3 General Requirements	16
9. Procurement Procedures	17
9.1 General	17
9.2 Procurement rules and regulations.....	17
9.3 Implementation Issues.....	17
9.4. Procurement of goods and services.....	17
9.4.1 Procedures.....	17
9.4.2 Local Procurements.....	18
9.4.3. Procurement of building materials for rehabilitation of infrastructure.....	18
9.4.4. Use of Inventory Sheets.....	19
10. FINANCIAL ACCOUNTABILITY	19
10.1 Conference, workshops and Trainings.....	19
10.1.1 Accommodation	19
10.1.2 Rates.....	19
10.1.3 Payments	19
10.2. Accountability of conference, workshops and training	20
10.3 Documentation in supporting Conference, workshops and Training payments.....	20
10.3.1 An Invoice (the pro-forma invoice or quotation alone is not enough).	20
10.3.2 A Receipt (It must be an ORIGINAL and not a copy).....	20
10.4. Subsistence Allowance	20
10.4.1 General.....	20
10.4.2 Accountability of Subsistence Allowance	20
10.5. Training.....	21
10.6 Local Transport	21
10.6.1 General.....	21

10.6.2 Reimbursement of Travel Costs	21
10.7. Fuel Refunds to participants using their own motor vehicles	21
10.9. Hiring of motor vehicles to facilitate implementation activities	21
10.9.1 Hiring Motor Vehicles:	21
10.9.2 Fuel Expenditures:.....	22
10.10. Foreign Trips	22
10.10.1 Air Travel	22
10.10.2 Registration & Tuition fees	22
10.10.3 Subsistence Allowances under foreign trips	22
10.10.4 Related Travel Costs.....	22
10.10.5 Implementation issues on foreign trips.....	22
10.10.6 Accountability of Foreign Trips.....	23
11. LIQUIDATIONS	23
11.1 General	23
11.2 Process of liquidations from Implementing Partners	24
11.3 Liquidations on Pool Funds	24
11.3.1 Accountability of Pool Funds	24
11.4. Important points to remember when compiling liquidation dossier	24
11.5 Source Documents for Accountability	25
11.5.1 Purchase Requisition	25
11.5.2 Payment Voucher.....	25
11.5.3 Local Purchasing Order (LPO)	25
11.5.4 Quotations	25
11.5.5 Invoice	25
11.5.6 Delivery Note/ Proof of Delivery and performance	25
11.5.7 Receipt/ Proof of payment	25
11.6 Eligible Costs.....	26
12. STATUTORY COMPLIANCES	26
12.1 General Tax requirements at PMU	26
12.1.1 Pay as You Earn (PAYE).....	26
12.1.2 Value Added Tax (VAT)	26
12.1.3 Withholding Tax	26
12.2 General Tax Requirements at the Implementing Partners	27
12.2.1 VAT	27
12.2.2 WHT	27
12.3 Pension Contributions Requirements at PMU	27
13.REPORTING	27

13.1 Reporting	27
13.2 Specific Financial Reporting Requirements	27
13.2.1 Implementing Partners	27
13.2.2 Programme Management Unit.....	28
14. MONITORING AND EVALUATION	28
14.1 Monitoring	28
14.2 Performance Indicators.....	28
14.3 Accountability of the monitoring exercise	28
15. INTERNAL CONTROLS.....	28
15.1 General	28
15.2 Internal Controls systems include the following	29
15.2.1 Segregation of Duties between authorizing and accounting officers	29
15.2.2 Authorization and Approval Procedures	29
15.2.3 Documentation and Record-Keeping	29
15.2.4 Monitoring and Reporting.....	29
15.2.5 Risk Assessment and Management	29
15.2.6 Compliance Reviews and Audits	30
15.2.7 Training and Capacity Building.....	30
15.2.8 Ethical Standards and Conflict of Interest Policies	30
15.3 Implementing Issues.....	30
15.3.1 Internal Controls over Procurement	30
15.3.3 Control Environment	31
16. DOCUMENTATION AND RECORD KEEPING	31
16.1 General	31
16.2 Financial Records	32
16.3 Filing Systems.....	32
17. RISK ASSESSMENT AND AUDITING.....	32
17.1 Financial Risk Management Systems.....	32
17.2 Risk Management Framework	33
17.3 Auditing	33
18. ASSETS AND EQUIPMENT PROCUREMENT BY THE PROGRAMME.....	34
18.1 General	34
18.2 Registration of the Assets	34
18.3 Visibility.....	34
18.4 Maintenance of Asset Register	34
18.5 Accounting and Bookkeeping for Assets and Equipment.....	34

LIST OF ACRONYMS

PMU	Programme Implementation Unit
EUD	European Union Delegation
MIP	Multinational Indicative Programme to Malawi
DGS	Democratic Governance Sector
RBM	Results Based Management
PSC	Programme Steering Committee
EU	European Union
IP	Implementing Partners
ToR	Terms of References
RFP	Request for Proposal
PR	Purchase Requisition
LPO	Local Purchasing Order
IPC	Internal Procurement Committee
GRN	Goods Received Note
NDICI	Neighborhood Development and International Cooperation Instrument
DSA	Daily Subsistence Allowance
PAYE	Pay as you Earn
WHT	Withholding Tax
VAT	Value Added Tax
MRA	Malawi Revenue Authority
ICT	Information Communications Technology
IAS	International Accounting Standards

INTRODUCTION

Purpose of the manual

The overall objective of this Financial Management Systems Manual (hereafter referred to as the Manual) is to facilitate the effective and efficient implementation of the Direct Grant of the Chilungamo II (Access to Justice) Programme by all the Implementing Partners.

Specifically, this Manual is a communication tool used by the Chilungamo II (Access to Justice) Programme Management Unit (PMU) to communicate the main financial and accounting rules, procedures and standards to be adhered to by the designated Activity and Finance Coordinators of the Implementing Partners as it implements the actions funded from the Direct Grant of the Chilungamo II (Access to Justice) Programme.

Scope of the Manual

The Manual also serves as a Management Tool for Heads of Implementing Partners, the Programme Coordinator and the Programme Management Unit (PMU) to apply and monitor financial and management control procedures.

Lastly the Manual acts as a “Reference Document” for both designated Activity and Finance Coordinators of Implementing Partners to facilitate their day-to-day decisions regarding implementation of activities funded by the Programme

Users of the Manual

The manual shall be used by the Programme’s PMU, Implementing Partners, EU Delegation, Internal Auditors and other key stakeholders.

1. Background of the Programme

1.1. General Background

European Union funded Technical Assistance Programme to provide technical and administrative assistance to the Government of the Republic of Malawi in their implementation of the Chilungamo Programme II, which is continuity for the Chilungamo I Programme, implemented between 2018-2022. The Chilungamo I Programme’s main objective was to contribute to dignified life through accountable Government, informed democratic choice, and humane and effective delivery of justice.

Chilungamo II builds on previous interventions in the justice sector and will continue to support justice reforms that aim at long-term and sustainable solutions to systemic issues with accessibility and effectiveness of key justice institutions. To this end the Programme will support institutional capacity building, gradual decentralisation of services and introduction and scaling up of innovative solutions such as alternative sentencing and expansion of paralegal and mediation services. Seven key justice institutions are to be supported under this Programme, namely; Ministry of Justice, the Judiciary, the Police, the Prisons, the Malawi Human Rights Commission, the Office of the Ombudsman and the Legal Aid Bureau.

1.2. Overall Objective of Chilungamo II Programme

The Overall Objective of Chilungamo II Programme is to **improve humane and effective delivery of justice for all, especially those living in marginalised and most vulnerable situations**. The Programme also seeks to contribute to the achievement of the objectives laid out in the Malawi’s rule of law and justice reform agenda and Democratic Governance Sector Strategy and to build on successes and lessons learnt from previous programmes and strategies.

To contribute to the Overall Objective, Chilungamo II Programme includes the following two Specific Objectives (dealt in more detail below):

- Specific Objective 1: Enhance effectiveness and legal and coordination frameworks of the key justice institutions.
- Specific Objective 2: Improve access to justice for all, especially for the population living in the most vulnerable situations and women.

2. Chilungamo II (Access to Justice) Programme

2.1. The Lead Applicant

The Ministry of Justice is the Lead Applicant for the Direct Grant. The Programme has seven implementing Partners namely; Ministry of Justice, Malawi Human Rights Commission, Office of the Ombudsman, Malawi Judiciary, Prison Services, Legal Aid Bureau and Malawi Police Services. The Solicitor General, who is the Supervisor of the Programme, will provide supervision to implementation to ensure achievement of key objectives. The lead applicant, or their appointee, will serve as the Coordinator of the Programme and will be responsible for overseeing the entire Programme implementation. All the implementing Institutions must ensure adherence to the general conditions of the Direct Grant.

2.2. The Logical Framework

The logical framework was designed and updated before the implementation of the Programme, establishing any new quantitative indicators for achieving the program results. At the end of the Action, an end-line survey will measure the program's achievements against the baseline data.

The outputs to be delivered by this action contributing to the corresponding specific objectives (Outcomes) are:

- 1) **Output 1.1** Improved knowledge, gender-balance skills and capacities of the key justice systems
- 2) **Output 1.2** Improved legal and coordinated framework for key justice institutions (Judiciary, Prison services, police services, office of the ombudsman, Legal Aid Bureau and Malawi Human Rights under the leadership of the Ministry Justice.
- 3) **Output 1.3** Improved capacity of Malawi Prison Services to implement alternative sentences
- 4) **Output 1.4** Improved mechanisms and frameworks for enhanced accountability in justice institutions
- 5) **Output 2.1** Improved physical conditions of justice system infrastructure with a gender perspective
- 6) **Output 2.2** Improved capacity to offer legal and paralegal aid and mediation
- 7) **Output 2.3** Improved legal awareness and education among those living in the most vulnerable and marginalised situations

2.3. Result-Based Management

This manual is designed based on results-based Management. (RBM) is a management strategy aiming to change how institutions operate. It helps shift from the logic of resources and activities to the logic of results. This Action is based on a holistic view of the program and will be implemented using the RBM approach. Using RBM means that all applicants ensure that their designed activities, products, and services contribute to achieving the desired results (outputs, outcomes, and higher-level goals or impact) of the Chilungamo II program. Activities will be monitored and evaluated through indicators and milestones with their means of verification, which is critical to obtaining clear signals about the effectiveness of the proposed strategy and the validity of the correlations assumed. Managing effectively for better results requires flexibility to change strategies and activities if and when needed. Good management ensures that Chilungamo result matrix is updated at least once a year for annual work plans. The analysis from the M&E will be the basis for corrective decision-making in the Programme Steering Committee (PSC).

The most crucial element of RBM is ensuring that interventions lead to effective development and a positive change in access to justice. This change requires that all the Implementing Partners ensure their grants are commensurate with the results they hope to achieve. The Chilungamo Results matrix will facilitate the assessment of the outcomes at an aggregate level and the monitoring of the progress of individual Implementing Partners.

4. Planning and Budgeting

4.1 Budget Preparations

The Implementing Partners (IPs) are responsible for preparing the Programme's annual work plans and budgets. The Programme's budgets must align with the approved annual work plan. These documents serve as the framework for allocating expenditure and setting targets for the year. The PMU shall provide technical assistance in the process of budget preparation to ensure smooth and effective achievement of Programme objectives.

The annual work plan and budgets are subject to approval by the Programme Steering Committee (PSC) in May of each implementation year. Once approved, they are then submitted to the Delegation for final approval or endorsement.

Where necessary, budgets shall be revised whenever significant changes or variations occur in the annual work plans or the overall Programme plans. Any changes made to the budget should be highlighted and brought to the attention of the Programme Steering Committee for approval.

Any requests to reallocate or revise the annual work plans or budgets must undergo an approval process by the PSC. This thorough review guarantees that any adjustments to the budget serve to effectively enhance the accomplishment of the objectives outlined.

The Grant budget shall be distributed in the following breakdown:

Year 1: 1 November - 24 31 May 2025	max. 30 % of the total budget
Year 2: 1 June - 25 31 May 2026	max. 30% of the total budget
Year 3: 1 June - 26 31 May 2027	max. 30% of the total budget
Year 4: 1 June - 27 31 May 2028	max. 30% of the total budget
Year 5: 1 June - 28 31 October 2028	Rest of the funds, but no more than 10 % (Activities for Sustainability).

4.2 Rules on budget changes

For grants, subject to exceptions, the Implementing Partners may make transfers (i) between budget items within the same main budget heading or (ii) between main budget headings.

4.2.1. Changes between main budget headings.

The Implementing Partner may make these changes directly, **up to 10%** of the initial budget amount, internally without the approval of the Programme Management Unit of the Ministry of Justice. However, the PMU must be notified of any budget reallocation, and it should be reflected in the annual financial reports. If the reallocation is above **10%, up to a maximum of 25%**, approval must be sought from the PMU.

If the Implementing partner needs a bigger budget reallocation than 25%, the issue must be taken to the Programme Steering Committee, which must propose an amendment for the Direct Grant contract.

4.2.2. Changes within the same budget heading

The Implementing Partner may make changes within the same budget heading without requiring approval from the Programme Management Unit of the Ministry of Justice, **as long as the new activities still align with the outcomes of that budget heading**. However, the PMU must be notified of any budget reallocation, which should be reflected in the annual financial reports.

5. Financial Management Cycle of the Grant (From June to May)

The financial cycle of the grant was changed during the first year due to delays with the first disbursement. Initially, the financial year of the grant was aligned with the fiscal year of Malawi, but now the Financial year of the grant starts every June and will finish at the end of May.

5.1. Presentation of Annual work plans and budget (By 21st of June)

As the financial year (ending on 31st May) approaches, implementing partners (IPs) should begin the process of drafting next year's work plans and budgets for the upcoming year. By 21st of June, IPs are required to submit these work plans and budgets to the Programme Management Unit for a thorough review and consolidation. These work plans and updated budgets should include the budget balance with related activities carried forward from the previous year (the funds not utilized during the last year have to be included in the following year's budget with their related activities).

5.2. Submission of Progress and Financial Reports

The Implementing Partners' Progress and Financial Reports are required to be submitted by the 31st of June.

5.3. Cash Balance

The previous year's cash balance as of 31st May must be incorporated into the current workplan and budgets, to ensure clarity and accountability in financial planning. Implementing Partners should incorporate the outstanding activities into the current year's work plans and budget. The annual budget should not exceed 30% of the total grant.

5.4. Justification for the budget adjustments and new activities

If the Implementing Partner proposes new activities which were not included in their 4-year result matrix (attached) approved by the Program Steering Committee, they must justify their new activities, which will later be presented to the PSC for approval.

5.5. Programme Steering Committee

Programme Steering Committee will approve all the annual work plans.

5.6. Disbursement of the Grant to all the Applicants (September)

The Ministry of Justice, through its Programme Management Unit (PMU), will begin disbursing grants to all eligible applicants according to their approved work plans and budgets once the funds are available. The PMU will implement a "first come, first served" system for granting funds to implementing partners (IPs). Only IPs that meet the technical and financial requirements of the funding requests will be able to access the grants.

IPs can request new funding, once they have utilized 80% of the previous financing funds.

Each Implementing Partner shall acknowledge receipt of funds to PMU once each disbursement has been received into the IP's account.

5.7. Implementation and Monitoring

The Implementing Partners are responsible for carrying out the activities, while the Programme Management Unit (PMU) will be responsible for closely monitoring the implementation process. The monitoring will involve both technical and financial oversight to ensure that the Implementing Partners are executing the activities as originally planned and are adhering to the financial management regulations outlined in this manual.

The Implementing Partners should ensure that up to 5% of their annual budget is reserved for monitoring and evaluation purposes.

5.8. Key dates to the grant cycle

- **31 May** - End of financial year.
- **21st June** - Final day for IPs to present the progress reports and financial Reports
- **30th June** - Final day for IPs to present annual workplans and budgets
- **July** - The PSC shall take decisions with PMUs technical proposal to approve the following year's work plans and budgets



5.9. Budget Monitoring and Implementation

Budget monitoring and implementation ensures compliance, efficient use of funds and achievements of Programme objectives. Key Points in budget monitoring:

5.9.1 Disbursements of Funds

The PMU shall disburse funds according to the agreed schedule and timelines

5.9.2 Expenditure tracking

The Programme management unit (PMU) has implemented monitoring tools to track expenditure against the budget. The Implementing Partners (IPs) will be required to have computerized accounting software to maintain accurate and precise records and generate real-time reports.

5.9.3 Periodic reviews

PMU (Programme Management Unit) is responsible for conducting regular evaluations of the system's performance and financial operations and procedures. These reviews are essential to ensure that the system is operating as intended, particularly when it comes to budgetary control functions. If any discrepancies are detected, the implementing partners (IPs) must take necessary action as they indicate instances of overspending or underspending.

5.9.4 Internal controls

The Programme shall have a strong internal control system that emphasizes the segregation of duties. This means that the person initiating transactions should not be the same person who approves and makes the payments. There should be clear authorization and approval controls in place to prevent any unauthorized alterations to budget figures, ensuring that any changes go through a thorough process of authorization and approval.

5.9.5. Handling Ineligible Expenditures by Implementing Partners

The PMU has established a protocol to address instances where the Implementing Partners (IPs) misuse funds deemed ineligible.

5.9.5.1. Identification and Assessment

Prompt Review: The PMU identifies suspicious transactions or evidence of misuse during the liquidation process.

Verification: Collect relevant financial documents, transaction records, and correspondence.

Documentation: Maintain clear, chronological records of findings and communications for accountability.

5.9.5.2. Engagement and Clarification

Notification: Formally notify the concerned IP in writing, specifying the nature of the inadequacy and referencing relevant grant terms.

Response Opportunity: Give the IP an opportunity to respond and address findings within a specified deadline (e.g., 14 days).

Support: Engage and advise the IP to meet compliance requirements after reviewing their response.

5.9.5.3. Investigation and Determination

Site Visits: Conduct site visits if necessary to establish facts.

Assessment Criteria: Evaluate based on adherence to approved budgets, eligibility, efficiency, and compliance with contract terms.

5.9.5.4. Decision and Communication

Decision Making: Determine eligibility status based on evidence analysis.

Immediate Actions: Suspend further disbursements to the affected area or IP.

Inform the IP about the decision, implications, and next steps in writing.

Notify relevant stakeholders (EUD, PSC, etc.) as appropriate.

Official Declaration: A certified auditor/expert formally declares ineligibility.

5.9.5.5. Remedial or Enforcement Measures and Reporting

Recovery of Funds: Demand recovery of ineligible or misused funds within a defined period.

Reporting: Report serious misuse to law enforcement, regulatory authorities, PSC, and EUD as applicable.

Exclusion/Sanctioning: Consider barring the IP from future grant participation for repeated or grave offenses.

5.9.5.6. Documentation

Comprehensive Records: Keep a file of all investigation documentation, correspondences, decisions, and remedial actions.

5.9.5.7. Preventive and Corrective Actions

Lessons Learned: Conduct a debriefing to identify process gaps or training needs.

Capacity Building: Provide targeted support for financial management and compliance.

Policy Update: Incorporate cases of misuse and remedial actions in future updates of the Financial Management Systems Manual.

6. Banking Arrangements

6.1 Ministry of Justice

The Ministry of Justice through Programme Management Unit (PMU) will have three bank accounts facilitating financial transactions of the Programme. There shall be an account opened with the Reserve Bank of Malawi for Euro currency which will act as a holding account for the grants received from the European Union Delegation. Another holding account shall be opened with Reserve Bank of Malawi for Malawi Kwacha currency which will facilitate the operation of the Credit Ceiling Authority (CCA)

There shall be another account opened with a local commercial Bank for implementation of the Programme activities which will be in Malawi Kwacha. The operating account with the commercial bank shall be linked with The Malawi Kwacha Reserve Bank of Malawi holding account for CCA

The Supervisor to the Programme (Solicitor General) shall appoint names of authoring officers to both the Holding Account (Euro Account) held by the Reserve Bank of Malawi and the local account held by the Commercial Bank who will be the authorized (Principal) signatories.

6.2 Implementing Partners

The Ministry of Justice shall also assist the Implementing Partners (IPs) in opening bank accounts with the Commercial banks to be used for implementation of the activities. The accounts will be in Malawi Kwacha. The Programme accounts shall be exclusively for the Chilungamo II Programme activities.

All Bank charges levied to IPs Programme bank accounts are eligible expenditures. IPs shall use the grant received to service bank charges.

Each Controlling Officer for the Implementing Partner shall appoint signatories responsible for authorization and approval of payments in the electronic payment system.

6.3 Funds Flow

The following shall be the flow of funds from the European Union to the Implementing Partners.

- The European Union Delegation shall release funds to the Lead Applicant, the Ministry of Justice, through a euro account held by the Reserve Bank of Malawi. The grant disbursement from the EU Delegation to the Programme will be in euros.
- The Ministry of Justice, through the Programme Management Unit (PMU), will develop comprehensive cash flow projections based on approved work-plans and budgets for the year. Funds in euros will be systematically transferred from the Holding account at the Reserve Bank of Malawi to the Operating account held by the Commercial Bank. The amount to be transferred will be determined by the Programme's consolidated projected cash-flow requirements, aligning with quarterly activity and procurement plans.
- A subsequent transfer in Malawi Kwacha will be made from the Ministry of Justice's (PMU) Operating Account to the operating accounts of the Implementing Partners for the execution of the activities. The transfer will be based on the approved funding requests that meet specific conditions regarding the accessibility of grant funds.
- The Ministry of Justice, through the PMU, will disburse funds to all implementing partners in accordance with approved work-plans and budgets, on a quarterly basis.

6.4. Disbursements

Implementing Partners shall have to present annual work plans with measurable targets before they receive the first disbursement of the Grant. The measurable targets shall enable PMU to monitor if the outputs are achieved or not. Failure to reach targets could be as a result of the following;

- Activities have been implemented, but they didn't contribute to the output as planned. In these cases, the PMU shall have to work with the Implementing Partner by changing the activities for the following year.
- Activities have yet to be implemented. In these cases, the Implementing Partner only get new disbursements for the same output after they can demonstrate that the activities have been implemented.

6.5 First Disbursement

The budget for the first disbursement of the grant shall be not more than **30%** of the total allocated Grant to the Implementing Partners. The first work-plans should prioritize procurements of assets (investments) and part of the activities lined up for year one.

- The approved first disbursement to the IP and PMU shall be **100%** of the approved work-plans and budget for year one.
- The Implementing Partner shall submit annual work plans with targets and budgets to PMU based on the approved Results Framework Matrix
- The budgets for the first disbursement shall be proportionate to the number of months up to **31st March 2025 (fiscal year)** from the date the grant shall be approved.
- The annual budgets shall be approved by the Programme Steering Committee (PSC)

6.6 Second and subsequent disbursement

After 31st March, the IP shall submit annual progress/technical and financial report to demonstrate that;

- **Funds received have been utilised** in accordance with the work plan
- **Funds have been** accounted for through liquidations
- **Budget Balance and outstanding activities** have been included into the subsequent year work plan and budget

Once the PMU is satisfied with the compliance of the funding request, it shall proceed to process the funds into the Implementing Partner's account.

Please note that 80% of carryover targets should be accomplished by 31st July. If this is not satisfied, the PMU must re-evaluate the activities and the work plan and effect necessary budget changes.

When the Implementing Partner cannot implement its budget or its activities do not contribute to the target, the PMU must draft a technical proposal for the PSC. This proposal recommends revising and updating the Implementing Partner's 4-year work plan and redirecting the unused funds to the pool fund or other IPs with better performance.

Failure to submit adequate liquidations shall delay the processing of the subsequent grant.

7. Financial Policies and Standards

7.1 The Programme Financial Year

The financial year for Chilungamo II Programme shall run from 1st June to 31st May.

7.2 Basis of Accounting and Accounting Standards

For grants, the contract requires the Programme' accounting records to be maintained in accordance with the accounting principles and rules of the country of the recipient. These accounting principles and rules generally prescribe **accrual accounting**.

The PMU shall adopt accruals accounting as the basis of accounting. Accruals accounting states that “transactions and other events are recognized when they occur (and not when cash or its equivalent is received or paid).” The transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. Elements recognized are assets, liabilities, net assets, revenue and expenses.

Examples of assets to the Programme

- Advances paid to suppliers. These are assets to the Programme until such a time the supplier has earned the right to payment by carrying out the contract
- Advances paid to grantee. These are Programme assets because the payments remain the property of the Programme until the grantee has earned the right to the grant by carrying out the contract

Examples of liabilities to the Programme

- Amounts owing to suppliers for contracts carried out but still to be paid for

Avoidance of fiduciary Risks

The accounting records and the financial report must cover Programme activities implemented by EU funds and any activities financed with funds from other donors or recipient’s financial resources (under co-financing).

This means that the contracting authority has the right to audit all Programme expenditures and not only that financed by its funds.

7.3 Currency of Recording and Reporting

The functional currency for the action transactions is Malawi Kwacha. All transactions denominated in foreign currencies shall be translated and recorded in Malawi Kwacha at the official exchange rate at the transaction date

7.4 Foreign Currency Transactions

Costs incurred in the functional currency (Malawi Kwacha) shall be converted to euro using the convertible rate ruling at the time of exchange.

7.5 Exchange Gains

The exchange gains arise as a result of fluctuations in exchange rates when converting grant funds from euros to Malawi Kwacha.

The exchange gains must be reported by the Programme and shall be reallocated to programme implementations as long as they cannot result in profits by the programme

7.6 Recording of exchange gains

PMU shall maintain detailed records of all currency conversions, including the date of conversation, the exchange rate used, the amount in euros and equivalent amount in the local currency

7.7 Separate Accounts

PMU shall set up separate ledger accounts to track exchange gains and losses, ensuring transparency and ease of reporting.

8. General Ledger Set Up

8.1 Chart of Accounts

The Chart of Accounts is a listing of general ledger accounts. The Chart of Accounts provides the structure for recording and controlling budget and accounting data and for summarising the data for monitoring and reporting. The coding for accounts should ensure proper recognition of revenue and expenditure, as well as assets and liabilities of the programme.

The Programme have a regular review of the Chart of Accounts to ensure that it adequately supports the financial management and internal control requirements of the Programme. A review of the Chart of Accounts should be undertaken before the start of each financial year based on the annual work plans and annual budgets of the Programme.

The Chart of Accounts for Chilungamo II Programme shall follow the budget code in the same pattern as in “Annex II Budget for Action” but shall be expanded to reflect specific activities.

8.2 Financial Accounting System

The primary objective of the financial accounting system is to record in a systematic and controlled manner the financial transactions and events of the programme and to report financial information for monitoring and controlling the programme funds and implementation.

The major steps in the accounting process for the programme shall include the following;

- Transaction processing – approve transactions and enter the transactions in the receipt and disbursements journal or general journal creating a record of events in date order (Receipts or Make Payment function of accounting software).
- Posting to Ledger Accounts - post debits and credits from the journals to the appropriate ledger accounts creating a record classified by accounts. (Upon entering of the transactions in the receipt and payment window of accounting software, all transactions are posted automatically in the general ledger).
- Prepare a Trial balance – produce a trial balance from the general ledger account balances and prove the equality of debits and credits in the ledger. (The accounting system will automatically generate a trial balance).
- Make month end adjustments – reconcile control accounts (e.g. bank accounts, advances accounts) and prepare adjusting General Journal entries and post to the ledger accounts (adjusting entries will be posted through the general journal entry module of accounting software).
- Prepare an adjusted trial balance – again produce a trial balance from the general ledger account balances and prove the equality of debits and credits in the ledger. (The accounting system will automatically generate a trial balance).
- Prepare financial reports and financial statements - an income statement/statement of sources and use of funds shows result of operation for the period. Balance sheet is needed to show the financial position as of given period of time. (Financial statements and other reports will be automatically generated).
- Journalise and post-closing entries - the closing entries clear the revenue and expense accounts, making them ready for recording the transactions and events of the next accounting period.
- Prepare an after closing trial balance - this step ensures that the ledger remains in balance after posting of the closing entries (automatically the relevant accounts will be cleared to the balance sheet accounts when the function of closing the accounting period is selected)

8.3 General Requirements

The following general conditions are the main requirements for EU funded external actions managed through Grants

- Accurate and regular accounts of the implementation of the action must be kept using an appropriate accounting and double entry bookkeeping system
- The accounts and expenditure must be made easily identifiable and verifiable, by using separate accounts for the Programme
- The costs must be recorded in the recipient's accounting records and determined in line with the accounting standards of the recipient's country in which it is established and the recipient's usual accounting practices
- Foreign exchange losses are not eligible costs for grant contracts
- For Grants, the recipient should use the same accounting policies and practices for EU funded Programme as for all other operations
- Journal vouchers are properly checked and reviewed by authorized persons
- Regular checks of actual expenditure against the budget

- Accounting records must be made in double entry (Debit/Credit)
- The accounting records must be based on a properly defined chart of accounts
- The methods used must ensure that once an accounting entry is recorded it can no longer be altered
- Knowledge of accounting techniques
- The person appointed to keep accounts must have the skills needed for the job.
- Use specialized accounting software which allows more powerful control features than the manual system.

9. Procurement Procedures

9.1 General

Sound financial management is a key principle of EU financial regulations and requires EU funds to be used in line with the principles of economy, efficiency and effectiveness. If procurement is done without complying with the contractual obligations, the programme expenditure is ineligible, and this will result in the Contracting Authority recovering the funds. The detailed procurement rules for grant contracts are laid down in a standard annex to the contract (Annex IV), also at: <http://www.concordeurope.org>

9.2 Procurement rules and regulations

The procurement rules and regulations for Chilungamo II Programme shall follow the procurement rules and regulations of the institutions implementing the Direct Grant.

However, as a rule, the procedures and regulations MUST be **in line** with the following general principles laid down in Annex IV of the General Conditions to EU Grant.

(Please follow Annex IV of the general conditions of Grant contract contains detailed explanations)

9.3 Implementation Issues

The Internal Procurement Committees of the Implementing Partners shall be responsible for ensuring compliance with the Public Procurement and Disposal of Assets Act procedures and EU procurement guidelines.

Each Implementing Partner shall ensure that procurement is made according to the procurement Plan based on the approved work-plans and budgets. The Institutions shall be responsible for the following:

- Preparing annual work plans and procurement plans.
- Developing Terms of Reference (TORs), shortlists, and Requests for Proposals (RFPs) for consulting assignments and providing key inputs for the preparation of bidding documents, including technical specifications, for contracts of goods.
- Establishing a procurement filing system and maintaining procurement documentation.
- Participating in bid evaluation and short-list approvals.

The Ministry of Justice through PMU shall provide technical support in the procurement process to the Implementing Partners to enhance compliance. The PMU shall be responsible for the following:

- Monitoring the execution of the procurement plan.
- Coordination of training for IPC members of the Implementing Partners regarding basic procurement rules and guidelines, both for EU and Government procedures.
- Participate (as an observer) in management of procurement processes for each contract, to include opening of bids, evaluation, selection, etc.

9.4. Procurement of goods and services

9.4.1 Procedures

Procurement procedures shall be as guided by the local Procurement procedures in the Public Procurement Act.

9.4.2 Local Procurements

Local procurement must adhere to the correct procedures. Two copies of a Purchase Requisition (PR) must be generated in line with the approved procurement plan.

Subsequently, it is imperative to follow the standard institutional procurement procedures. The specific procedure employed will be dictated by the guidance relating to different categories in accordance with predetermined thresholds. The updated thresholds can be acquired from the Public Procurement and Disposal of Assets (PPDA) office.

Following the approval of the Purchase Requisition processes, a Local Purchase Order (LPO) will be issued in favor of the supplier offering the most competitive quotes. Subsequently, the LPO and all associated documentation will need to be submitted to the institution's finance section/department for verification.

Finance will investigate the following before verifying:

- All documents outlined above have been attached and requirements complied with.
- The prices are realistic.
- And that the goods are on the procurement plan.
- The budget has enough funds for the procurement.

The Finance shall process the payments upon being satisfied with the compliances.

As part of the Internal controls' systems compliance, Controlling Officers of the Institution shall ensure application of segregation of duties in the processing of the Local Purchasing Order. Specifically, any finance officer who certifies the LPO should not be the same staff authorizing the LPO. A responsible officer should be appointed to authorize the LPO.

Procurement through tender shall be processed by the Internal Procurement Committee in accordance with the PPDA threshold.

For suppliers selected by the IPC:

- A contract shall be drawn and signed by the Programme Coordinator of the Programme for PMU or/and Head of the Institution of the IP.
- It shall stipulate key contractual obligations of both parties to the contract which if not satisfied, the Contracting Authority shall have a contractual right not to pay, withhold payment or reject the goods or services delivered.
- Every contract should specify a period of guarantee or observation of the performance of the goods or services under which the supplier shall be bound to repair or replace defective items at no extra charge.
- General conditions of the contract must be appended to the contract such as retention and performance guarantee.

9.4.3. Procurement of building materials for rehabilitation of infrastructure

Some of the Implementing Partners of the Chilungamo II Programme shall be rehabilitating infrastructures in various districts across the country. The Chilungamo II Programme shall fund the procurement of building materials, labour and consultancy services.

Measures must be taken to ensure that the materials are procured as and when needed, in the correct quantity, at a reasonable price that provides value for money.

The TA Facility shall, from time to time, engage an Infrastructure Consultant who shall issue certification on the progress of the rehabilitation, including recommendations on the delivery of building materials to the rehabilitation sites to ensure that materials follow technical reports from the civil engineer.

9.4.4. Use of Inventory Sheets

When the building materials have been procured and delivered on-site the materials have to be recorded in the inventory sheets. Similarly, as the materials are being issued out of the stores for rehabilitation, the same should be recorded in the inventory sheets.

10. FINANCIAL ACCOUNTABILITY

Financial Accountability is crucial to ensure that funds are used efficiently, transparently, and in accordance with regulations and objectives.

The Programme Coordinator shall always comply with the provisions under the financial regulations which set out principles for sound financial management, including transparency, accountability and the prevention of fraud and corruption.

The PMU and Implementing Partners have the responsibility of ensuring that there is proper accountability of the Grant they receive from the European Union.

The Activity Coordinator shall ensure that Action implementing report is prepared timely while the Finance Coordinator shall ensure that detailed expenditure report and justifications are prepared. The consolidated accountability covering technical and financial report shall be compiled by the Finance Coordinator and submitted to PMU. Where the PMU has issues that need to be clarified and elaborated both officers have a duty to respond to queries.

The timeline for the submission of liquidations and accountability reports has been highlighted under liquidation.

10.1 Conference, workshops and Trainings

10.1.1 Accommodation

Accommodation will be required for overnight stays in those cases where officers are attending approved Chilungamo II Programme activities that are taking place away from the normal duty stations of the participants. The venue where the activity should take place should be reached after careful consideration of the convenience of accommodating all the participants from different locations and the cost involved in both accommodation and conference packages. In all cases, refer to the Government circular for the applicable rates.

10.1.2 Rates

When obtaining a quotation for the rates offered by different hotels, the service required must be clearly stated to get the right quotation. The range of services could be in the form of:

- Bed only
- Bed & breakfast (the standard/default rate used by all major hotels in Malawi).
- Half board (includes one extra meal, either lunch or dinner)
- Full board (includes bed, breakfast, lunch and dinner)

The rates requested for the above should be as prescribed in the institution's approved rates circular inclusive of all taxes. In the event that a pro-forma invoice was requested from the hotel prior to the event, it must list separately all components that make up the total cost. These will include accommodation, lunches, venue hire, dinners etc. The number of people for whom the quotation applies must also appear in the pro-forma invoice. The breakdown should be the number of people, cost per person and total cost. Where rates cannot be obtained, such as is the case in rural areas, a reasonable estimate will suffice for budgeting purposes.

10.1.3 Payments

Payments for meetings, workshops, seminars, courses and similar events must follow the public procurement procedures. It is advisable that a maximum of 50% of the pro-forma invoice estimated cost must be paid as an

advance payment, with the balance due being settled after a reconciled final invoice has been processed by either the PMU or the IPs. In all cases, settling hotel invoices shall be done through direct electronic transfers other than cash.

There will be rare and minimum instances where it is impractical or impossible to pay by electronic transfer. In this case the funds should be advanced to the Finance coordinator/ person travelling who will later produce the relevant invoices and receipts to clear the advance.

10.2. Accountability of conference, workshops and training

Where the accommodation service provider has been engaged to provide the service, payment for it must be made direct to the hotels and lodges other than the participants. In that case, procurement procedures must be followed justifying the choice of the specific hotel/ lodge other than the rest. Where the activity is taking place outside cities and towns where there are no hotels or lodges listed among the approved list, participants shall be given daily DSA which includes accommodation upon signing the daily attendance register. The participants shall in turn settle their accommodation on individual capacity. In that case the DSA signing sheets coupled with the daily attendance sheets become accountability receipts for the expenditure.

Supporting staff such as drivers and office assistants shall be given the DSA that includes accommodation even when the activity is happening in cities and towns with an approved list of lodges and hotels. The accountability for such shall be as explained above for the cases where DSA includes accommodation.

10.3 Documentation in supporting Conference, workshops and Training payments

Documentation to support advance and final for payment of the accommodation MUST include:

10.3.1 An Invoice (the pro-forma invoice or quotation alone is not enough).

The invoice must contain all the relevant details of the services provided to the guest. Among others, the following details shall be expected to be on the invoice for the accommodation; room number, dates the guest was accommodated, extra services provided by the hotel such as meals, refreshments etc. The invoice must be original and not a copy. In addition, finance coordinators must ensure that names of guest accounts are reconciled to attendance register.

10.3.2 A Receipt (It must be an ORIGINAL and not a copy)

In addition, the liquidation must contain the following documentation:

- The agenda
- The attendance register (morning and afternoon) for everyday session. Each participant must write and sign for oneself in the attendance register and also in the allowance payment/receipt form. All allowances paid must be reconciled to attendance register.

On checking out of a hotel, the individual or the designated coordinator of the activity shall be required to sign the final invoice to confirm that all the charges contained therein are correct. The invoice and all supporting documentation should be checked thoroughly to ensure that no participant has incurred inappropriate expenses. This will prevent the relevant institution incurring the additional expense, as it will not qualify for funding from the Programme resources. Individuals taking and consuming items that were not on the list/quotation and contract for the function such as alcohol, soft drinks, snacks teas and snacks shall be liable to settle the extra bills themselves.

10.4. Subsistence Allowance

10.4.1 General

Subsistence allowances are paid for officers who are working or attending official activities outside their duty stations. The rates and the principles are those contained in the updated **Institution's DSA guidelines**.

10.4.2 Accountability of Subsistence Allowance

Officers responsible for organizing activities must ensure that allowances are paid correctly to the designated individuals according to the Institution's DSA Guidelines. In addition, a detailed attendance register, with separate

sections for morning and afternoon sessions, must be signed by all participants of workshops, seminars, meetings, and similar events. Only those individuals who have signed the register are eligible for accommodation, fuel, meals, and DSA payments. The registers must be verified by the Activity Coordinator and Finance Coordinator overseeing the activity.

Moreover, facilitators who are also staff of the Implementing Partners and PMU are not entitled to receive facilitation fees for training and workshops. When a workshop is part of an activity, the Implementing Partner must ensure that the ORIGINAL signed daily attendance registers are included with the financial settlement. If the meeting spans the whole day, participants need to sign the register in the morning and in the afternoon.

10.5. Training

Upon completion of training or a course of study, the final liquidation must be supported by a written report on the course attended, a copy of the certificate where one is issued and the benefits derived therefrom.

10.6 Local Transport

10.6.1 General

Road transport and fuel costs shall be refunded to officers travelling to meetings, workshops, training and similar functions.

10.6.2 Reimbursement of Travel Costs

Travel by bus, coach line, minibuses and other forms of mechanized public transport will be reimbursed upon submission of the original receipts. The amount to be refunded is calculated by taking the amount appearing on the receipt, multiplying it by 2 so that the participant is compensated in full for returning the ticket. This is to be processed using a Transport Re-Imbursement Claim form.

10.7. Fuel Refunds to participants using their own motor vehicles

All participants using their own motor vehicles for Programme activities such as PSC meetings or similar functions and are entitled to fuel refunds: You will be reimbursed based on the actual distance covered as recorded in the logbook. The eligible distance for the fuel claim includes the distance covered to the venue and return, along with a provision for local running per day during the meeting period. When the distance is between districts, cities, and towns, the distance chart provided by the Ministry of Transport shall be adopted. If no clear guidelines are available from the chart, the logbook readings will be used. In the rare case where verification of the distance covered is needed, the distance covered by Google Maps will be adopted.

The local running allowance is designed to cover the travel from the place of accommodation to the workshop and back at the end of the day. The local running mileage must be supported by a fully completed logbook/log sheet with mileage reading, the name of the driver, and the name of the event participant if different from the driver.

The amount to be refunded will be reimbursed at the rate prescribed in the Institution's rates circular, which is updated from time to time by the Malawi Government and based on the actual distance traveled as recorded in the logbook or its equivalent. This allowance applies to all engine capacities. The basis of calculation for fuel refunds are based on the rates circular issued by the Malawi Government.

10.9. Hiring of motor vehicles to facilitate implementation activities

10.9.1 Hiring Motor Vehicles:

For the Programme Management Unit (PMU), the Programme Coordinator is responsible for approving the request after assessing the justification for hiring motor vehicles. The procurement department will follow the standard procurement process for acquiring car hire services.

10.9.2 Fuel Expenditures:

There might be cases where the fuel estimation budget is underestimated due to activities involving multiple trips in remote areas, leading to fuel shortage.

Organizers might need to purchase fuel from local filling stations in such cases.

Supplementary fuel expenses must be accounted for during activity liquidation and should be emphasized separately with relevant documentation.

The documentation should include an approved justification by the Controlling Officer (via email correspondence), a logbook, and fuel receipts.

Fuel receipts should contain detailed information such as the name of the institution, vehicle registration number, quantity of liters issued, and total cost.

A copy of the logbook showing the beginning and end of the journey must always be attached. Failure to do so will result in disallowance of expenditure during liquidation.

Implementing Partners should be encouraged to always maintain updated logbooks to avoid ineligible expenditures.

10.10. Foreign Trips

Some activities such as conferences, workshops and training might take place in a foreign country. Foreign trips have additional applications in addition to the normal rules on DSAs and air travel.

Arrangements and budgeting for allowances while on duty travelling abroad are different from allowances applied for travel and events taking place in Malawi.

10.10.1 Air Travel

Tickets are always based on economic fares using direct flights. However, when one travels in business class, the Programme shall only pay the equivalent of an economy class ticket, and the shortfall shall be covered by the Implementing Partners or an officer travelling, other than EU Direct Grant.

10.10.2 Registration & Tuition fees

The organization hosting the event normally issues invoices which provide any attendance or training charges/ fees for participants including any costs related to attending the event. The IP shall ensure that during the budgeting of the event, all costs related to attending the event have been considered.

10.10.3 Subsistence Allowances under foreign trips

These are based on the latest Government Guidelines. When the officer is travelling outside the country the per diem should be paid in foreign currency. Where this is not possible the currency should be converted using the bank *cash selling* rate.

10.10.4 Related Travel Costs

Costs such as local transport, trips to and from the airport, airport taxes, etc. are calculated as per the actual cost.

10.10.5 Implementation issues on foreign trips

The key issue is to make sure that the activity/ training or conference was foreseen and budgeted for in the approved annual budget. Secondly, it must be established that the activity, training or conference directly contributes to Programme outputs.

For all international travel at least TWO weeks' confirmed notice is required to process the funding. This ensures that hosting institutions receive the fees prior to the event.

In situations where additional unexpected expenditure arises, due to circumstances outside the control of the traveler, the officer traveling should inform the Head of the Institution at the earliest possible for approval of the additional expenditure reimbursement. The request should be supported by adequate documentation.

10.10.6 Accountability of Foreign Trips

The air ticket and boarding passes covering all sections of the journey are to be submitted as soon as possible after returning to Malawi. If no boarding passes are presented, there is a high risk of all costs for the study course being declared INELIGIBLE by the auditors.

A report on the course attended should also be submitted to the Head of the Institution and a copy of it attached to the final liquidation submitted to the PMU. In addition, a Certificate of attendance should be attached to the liquidations.

11. LIQUIDATIONS

11.1 General

Liquidation is a comprehensive report prepared by the Implementing Partner to justify the expenses incurred during the implementation of the grant activities. Implementing Partners are required to submit these liquidations to the PMU while they are carrying out the grant activities.

By the conclusion of each quarter, Implementing Partners are expected to have justified at least 70% of the previous funding received. If the Implementing Partner is still carrying out an action that has a budget of more than 30% by the end of the quarter, they should still report all the expenses incurred by the end of the quarter.

Implementing Partners should also take note of the important deadlines in the financial cycle management. The key dates relevant to the submission of financial reports are as follows:

31st May – This marks the end of the Programme financial year.

Implementing Partners should be aware that liquidations are included in the progress reports and hence follow the same pattern. By 31st May, Implementing Partners will be expected to achieve at least 80% of the targets.

The liquidation dossier must contain the following:

- 1) A covering page providing details of the:
 - Name of the Implementing Partner
 - Number of the liquidation (sequential)
 - Action Activity code
 - Title of the activity
 - Initial budget of the activity
 - Amount of money spent and being claimed for liquidation
 - Balance Unspent
 - A Reconciliation (Budget vs Actual) and the budget balance, which must be signed by the Finance Coordinator as the person preparing the reconciliation, and by the Activity Coordinator as having checked and approved it.
 - A Checklist for ticking off things to be attended to

Detailed information should be included on page number 2. This should consist of a comprehensive summary of all the expenses related to the activity, organized into individual budget lines. For each expense, there needs to be a comparison between the budgeted cost and the actual cost, along with an explanation for any significant variance. Make sure that all payments are supported by thorough documentation, which must be provided in its original form.

In cases where multiple vouchers contribute to a total cost, such as fuel cash sale vouchers, it's important to provide a breakdown of the individual amounts that make up the total. The total on this summary sheet must match the figure for that expense in the overall summary mentioned earlier. To facilitate cross-referencing, all supporting documents

must be sequentially numbered, with matching references on the summary sheets. It would be helpful if these numbers were written in red ink.

To prevent the loss of small dockets and to maintain an organized filing system, individual receipts and cash sale vouchers should be affixed to an A4 sheet of paper and attached to the relevant summary sheet. Similarly, if there is a balance of money that is redeposited into the bank account, the deposit slip must be handled in the same manner.

In the case of a workshop, seminar, or training session, the supporting documentation must include an attendance register for each day and a copy of the agenda. Additionally, the activity completion report forms an integral part of the supporting documentation for expenditure and must be included in the liquidation dossier.

Finally, if there is any unspent balance upon the completion of the activity, that amount must be transferred back to the Implementing Partner's Chilungamo II Programme Bank Account.

11.2 Process of liquidations from Implementing Partners

When submitting the liquidation dossier, the Implementing Partner (IP) must provide a delivery book for the PMU's Administrative Assistant to sign, acknowledging receipt of it. The Administrative Assistant will then record the delivery and stamp the document on the liquidation register. Subsequently, the dossier will be placed into the normal administration circuit system.

Upon receiving the liquidation dossier, the finance department at the PMU will carefully review it to ensure compliance. If any required documents or information, such as receipts, invoices, delivery notes, or airline boarding passes, are missing or incomplete, the PMU will contact the Implementing Partner within five (5) working days to request the necessary items.

Should any queries arise regarding liquidation, it is the responsibility of the Implementing Partner to provide clarification **within five (5) days** of receiving the queries. Once the liquidation dossier is complete and meets all requirements, the approved amount for liquidation will be posted to the general ledger. It is important to note that the Activity Completion Report is an integral part of the liquidation supporting documents.

11.3 Liquidations on Pool Funds

11.3.1 Accountability of Pool Funds

The Pool Funds activities will be carried out by the Implementing Partners and any other qualified institution or consultant capable of executing the required activities proposed by the Pool Fund members. Members of the pool fund will be responsible for selecting the appropriate entity to carry out specific activities using the Pool funds. This activity-based funding mechanism supports implementing activities outlined in the **pool fund work plan**.

During the implementation, the lead coordinator together with other pool fund members and the PMU has the important task of ensuring that all documentation related to the activity is in place, including receipts, DSA signing sheets, and attendance registers.

If the Consultant conducts activities on behalf of the Programme without involving the Programme's Implementing Partner, the Consultant is accountable for managing the funds. In this scenario, the funds will be directly transferred to the Consultant's account in accordance with the approved budget for the activity.

11.4. Important points to remember when compiling liquidation dossier

- Where possible all vouchers, cash sale receipts etc. must bear the name of the Implementing Partner and not that of a person
- All invoices and supporting documentation on the liquidation must be stamped 'PAID'
- It would help if the liquidation 'package' were secured together using one staple
- The Implementing Institution must keep copies of all pages that make up the liquidation.

- A separate liquidation dossier must be submitted for each activity. No liquidation dossier should cover more than one activity.

11.5 Source Documents for Accountability

11.5.1 Purchase Requisition

This is an internal document indicating the desire to purchase goods or services. The requisition should be approved by the responsible officer in the institution. The authorizing officer shall ensure that the goods/ services being requested were budgeted in the Action Plan, that the budget line of the activity has funds, and it is within the implementation plan period.

11.5.2 Payment Voucher

The electronic payment must be processed by way of a Payment Voucher. Each payment voucher should have three signatures, the finance Coordinator who prepares the payment, the Activity coordinator who checks the payment and the Head of Institution shall approve it.

Approval of a payment means:

- Approval of commitment to incur the expense.
- Acceptance that the expenditure is genuine and budgeted for as part of the activity.
- Acceptance that the expenditure is within the approved amount that has been budgeted for it.

In the case of third-party transactions like suppliers and service providers, the IP will carry out all the preliminary procurement activities as required by the Public Procurement Procedures.

Depending on the thresholds, the IPC shall have an evaluation procedure and come up with the recommended supplier or service provider.

Where the sale contract has terms allowing payments by instalments, or payments after delivery, the Programme Coordinator must ensure that delivery has been made of the goods or service before the final payment is made.

11.5.3 Local Purchasing Order (LPO)

The local purchasing order must be attached to the Payment Voucher.

11.5.4 Quotations

The critical thing about quotations is that they must be obtained from the approved list of suppliers and service providers and must be obtained and dated before invoices

11.5.5 Invoice

Every purchase from a supplier/service provider requires an original invoice, and NOT a copy. A pro-forma invoice on its own will not be adequate. Statements, quotations and delivery notes are not a substitute for an invoice.

11.5.6 Delivery Note/ Proof of Delivery and performance

Every transaction requires some form of evidence to prove the delivery of the goods/services. Delivery note is the document that gives such proof.

The delivery note must be signed acknowledging receipt of the goods and services. The officer signing the delivery note must ensure that the details on the delivery note agree in quantity and specifications in the purchasing order.

11.5.7 Receipt/ Proof of payment

Each transaction requires evidence that payment has been made. In most cases, the proof is the issue of a receipt by the supplier.

Where direct transfer from PMU is done the IPs can where possible secure a receipt from the supplier/service provided and submit it during liquidation

11.6 Eligible Costs

Article 14.1 of the Guide lists costs which are eligible in the action implementation

Eligible costs are actual costs incurred by the Programme implementers which meet the following criteria

- They are incurred during the implementation of the action as specified in the Article 2 the special condition
- They are indicated in the estimated overall budget for the action
- They are necessary for the implementation of the action
- They are identifiable and valuable
- They comply with the requirements of the applicable tax and social legislation
- They are reasonable, justifiable and comply with the requirements of sound financial management in particular regarding economy and efficiency.

12. STATUTORY COMPLIANCES

12.1 General Tax requirements at PMU

The PMU shall apply for a Tax Identification Number for all tax related purposes.

12.1.1 Pay as You Earn (PAYE)

Pay As You Earn is a method of collecting income tax from employees on their earnings. The employer deducts PAYE when the payments are made.

Chilungamo II Programme shall administer PAYE by deducting it from PMU employees when processing the salaries in accordance with the Malawi Taxation Act. The amount of tax deducted shall be remitted to MRA **not later on the 14th day** from the end of the month during which the tax was deducted. The remittance shall be made through direct electronic transfers. The Programme Finance Manager shall ensure that calculations and remittances of PAYE are made monthly and timely.

12.1.2 Value Added Tax (VAT)

General

VAT is a consumption tax paid when goods are purchased, and services rendered. It is a multi-stage tax. VAT is borne by the final consumer. All goods and services (produced within or imported into the country) are taxable except those specifically exempted by the VAT Act.

Implementing Issues

The Chilungamo II Programme shall report its expenditure from the Direct Grant, inclusive of VAT. VAT is therefore an eligible expenditure.

12.1.3 Withholding Tax

General

Withholding Tax is an advance payment of income tax that is deducted from specified payments. The Programme shall reduce the tax. Withholding tax is deducted using **specified rates according to 14th Schedule to the Taxation Act**.

Implementing Issues

Some suppliers' / service providers possess the Tax Exemption Certificate. The certificate is issued by MRA on application to exempt a taxpayer from being withheld tax on specified payments.

The Finance Manager shall ensure proper management of withholding tax by ensuring that the correct rates are applied and timely remittance to MRA. The Implementing Institution's Finance Coordinators shall also have the responsibility to ensure the correct application of rates and timely remittance of Withholding tax to MRA.

Reference should be made to MRA for the updated rates of withholding tax.

12.2 General Tax Requirements at the Implementing Partners

Implementing Partners shall use the Institution's TPIN for all tax related transactions on the grant received.

12.2.1 VAT

The IPs shall report expenditures inclusive of VAT since VAT is an eligible expenditure. The expenditure reported shall be a gross amount.

12.2.2 WHT

The Implementing Partners shall likewise apply rules in line with the MRA WHT Act provisions.

12.3 Pension Contributions Requirements at PMU

The Programme shall ensure compliance to pension provisions according to the Pension's Act. In line with the Act's provisions, the Programme shall contribute 10% of the staff's basic salary and deduct 5% of the salary. The contribution (10%) and deducted amount (5%) shall be omitted to an approved pension company.

The Programme Finance Manager shall ensure strict adherence to the requirements of the pension Act.

13.REPORTING

13.1 Reporting

All contracts for EU funded external actions require the Lead Applicant to submit financial reports on the use of the funds to the contracting Authority

Such reports have several purposes

- To allow the Contracting Authority to check that the funds have been used in accordance with the objectives, activities and budget agreed contract
- For interim financial reports to inform the Contracting Authority of the progress of the activities
- To provide the contracting Authority with the information it needs to determine the final amount of the EUs contribution to the Programme

13.2 Specific Financial Reporting Requirements

13.2.1 Implementing Partners

Management Accounts

IPs shall be required to submit to PMU Financial Expenditure Reports on a quarterly basis, latest, fourteen (14) days after the end of each quarter.

The quarterly Expenditure Report shall consist of:

- The Cashbook for the period
- Expenditure Listing
- Budget vs Expenditure Report (Variance Analysis)
- Income vs Expenditure
- Bank Reconciliation
- Fixed Asset Register

The simplified standard format of forms and templates shall be provided to the IP. IPs reports shall be in the functional currency.

13.2.2 Programme Management Unit

PMU shall prepare three sets of reports annually.

- Quarterly Financial Reports. For periodic monitoring of the implementation
- Interim Financial and Narrative Reports. This is a requirement of the general conditions.
- Final Financial and Narrative Reports. These are reports which are audited by the external auditors. The composition of the final financial reports shall be in line with Annex VI of the EU Direct Grant General Conditions

In addition to the above reports, the Finance Manager shall from time to time produce reports as required by the PMU or key stakeholders to enhance strategic decision making. Such reports could be monthly reports for internal meetings.

IPs are also required to produce monthly reports for management decision making.

14. MONITORING AND EVALUATION

14.1 Monitoring

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities, which is supported by Program Management Unit (PMU). To achieve this aim, the Implementing Partners shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports and final reports. Every report shall provide an accurate account of the implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logical framework matrix (for Programme modality) and the partner's strategy.

14.2 Performance Indicators

PMU shall have a monitoring tool linking financial expenditures with Programme progress. This tool shall ensure performance indicators and milestones which were planned are monitored.

14.3 Accountability of the monitoring exercise

The PMU is responsible for closely monitoring the activities of implementing partners (IPs) to ensure that they are carrying out their planned activities effectively. When officers return from their monitoring assignments, they are required to write detailed field reports using a template provided by the Administrative Assistant.

The PMU has the authority to conduct regular financial and activity monitoring, as well as other necessary checks, and may request to review any documents and records related to the activities carried out by the Implementing Partners using the Direct Grant funds. Additionally, the PMU may also make ad hoc visits to functions hosted by Implementing Institutions to monitor compliance with relevant procedures and to evaluate the quality and effectiveness of the intervention.

15. INTERNAL CONTROLS

15.1 General

The main purpose of internal controls is to ensure that the organization's operations are carried out effectively and efficiently. These controls also aim to guarantee the reliability of financial information and the fulfillment of contractual obligations. If adequate internal controls are not in place, there is a significant risk that the EU funds will not be utilized efficiently and in accordance with the contract terms. This could potentially lead to the mismanagement of program assets and a lack of proper accountability for fund usage. Implementing strong internal controls in EU grant management is crucial for upholding accountability, transparency, and adherence to regulations.

15.2 Internal Controls systems include the following

15.2.1 Segregation of Duties between authorizing and accounting officers

A key measure is to ensure that no single transaction or chain of transactions is in the hands of a single person. A transaction or chain of transactions may often involve many different tasks. By assigning these tasks to different people, IPs will reduce the risk of individuals being able to commit fraud or conceal errors in the normal course of their duties.

Examples of activities that can usefully be segregated include:

- physical control of assets versus verification tasks (for example, cash custody versus cash reconciliation tasks);
- management tasks versus authorisation tasks (for example, following procurement procedures versus authorizing the contract with the supplier); approving the purchase invoice versus accounting for it);
- accounting tasks versus payment tasks (for example, preparing payment versus signing the bank transfer order).
- management tasks versus accounting tasks (for example, for the segregation of duties to work as intended, every person concerned must understand what his/her responsibilities are).

To avoid misunderstandings, it is important to describe all responsibilities and tasks in writing, for example by means of:

- written job descriptions;
- a clear organisation chart, showing responsibilities and tasks;
- descriptions (or flow-charts) of the intended flow of transactions, indicating control points and the frequency of controls.

An effective way to cover these topics is to put them into a specially designed Programme or Programme manual.

In the absence of robust internal controls, there exists a substantial risk that the utilization of EU funds may not align with the stipulated contractual terms, leading to potential mismanagement of program resources and a lack of accountability.

Therefore, the establishment of robust internal controls in the management of EU grants is vital to uphold accountability, transparency, and adherence to regulatory requirements.

15.2.2 Authorization and Approval Procedures

Clearly defined processes for approving expenditures, ensuring that they comply with the grant's terms and regulations.

15.2.3 Documentation and Record-Keeping

Maintaining detailed records of all transactions and activities related to the grant, including receipts, invoices, contracts, and reports.

15.2.4 Monitoring and Reporting

Regularly monitoring grant activities to detect any irregularities or discrepancies and promptly reporting them to the appropriate authorities.

15.2.5 Risk Assessment and Management

Identifying potential risks to the effective use of grant funds and implementing measures to mitigate these risks.

15.2.6 Compliance Reviews and Audits

Conducting periodic reviews and audits to assess compliance with grant requirements and regulations.

15.2.7 Training and Capacity Building

Providing training and support to staff involved in grant management to ensure they understand their roles and responsibilities.

15.2.8 Ethical Standards and Conflict of Interest Policies

Establishing clear ethical standards and policies to prevent conflicts of interest and ensure impartiality in decision-making.

15.3 Implementing Issues

15.3.1 Internal Controls over Procurement

Vendor due diligence

To mitigate the risk of engaging with unreliable or unethical vendors, reducing the likelihood of poor quality, delayed deliverables, contract disputes, or reputational damage, the following should be implemented;

- Develop a vendor evaluation framework outlining criteria for assessing vendors such as financial health, references, compliance with regulations and ethical standards
- Conduct background checks, reference checks and financial analysis on potential vendors
- Document and retain records of due diligence activities and vendor evaluations

Competitive Bidding

To mitigate the risk of overpaying for goods or services by ensuring that the organization receives competitive prices and favorable terms from vendors, the following should be implemented;

- Develop clear specifications or requirements for the goods or services being procured
- Advertise the procurement opportunity widely to attract a diverse pool of vendors
- Evaluate bids or proposals based on predefined criteria, such as price, quality, delivery terms, and vendor qualifications
- Award the contract to the vendor offering the best value for the organization

Contract Management

To mitigate the risk of contractual disputes non-compliance or missed obligations by ensuring that all parties adhere to agreed-upon terms and conditions throughout the contract lifecycle

- Develop standard contract templates outlining terms and conditions, deliverables, payment terms and dispute resolutions mechanisms
- Ensure that the contracts are reviewed and approved by authorized individuals or legal advisors before execution
- Implement procedures for tracking contract milestones, deliverables and performance metrics
- Establish mechanisms for managing contract modifications, renewals and terminations

Budget Controls

To mitigate the risk of overspending and budgetary overruns by ensuring that procurement activities align with available financial resources and organizational priorities, the following should be implemented;

- Set clear budgets limits for different procurement categories or Programmes

- Implement approval workflows to ensure procurement requests are within budgetary constraints before processing
- Monitor actual expenditures against budget allocations regularly and take corrective actions as necessary
- Implement mechanisms for reviewing and approving budget adjustments within requirement

Supplier Master Data

To mitigate the risk of errors, fraud and inefficiency by ensuring that procurement activities are conducted with reliable and verified suppliers and that payments are made to legitimate entities, the following should be adopted,

- Establish a centralized repository for storing supplier master data
- Implement procedures for regularly validation and updating supplier information
- Control access to supplier master data to authorized personnel only
- Conduct period reviews and audits of supplier master data to identify and address any discrepancies or inconsistencies

15.3.3 Control Environment

The primary foundation of the grant recipient's control system is its own internal environment as set up by management.

This environmental control includes

- Integrity, ethical values and the behaviour of key executives
- Management's operating style
- Management's commitment and competence
- The organizational structure and assignment of responsibilities and authority
- Human resources policies and practices

These internal controls help to safeguard the integrity of EU grant programs and ensure that funds are used efficiently and effectively to achieve their intended objectives.

16. DOCUMENTATION AND RECORD KEEPING

16.1 General

The direct grant recipient must keep clear and relevant documentation. Without proper documentation, it is impossible to show that the costs claimed by the Contracting Authority meet the conditions of the contract. If the recipient cannot provide documentation showing that the funds have been used in accordance with contractual conditions the contracting Authority may decide to recover the unsubstantiated expenditure.

The general conditions of the grant contracts specify that,

- To be eligible, the costs must be identifiable and verifiable. This means that there must be adequate documentation proving that any expenditure is related to the Programme
- The receipt must allow the contracting authority to carry out checks and audits and to examine supporting documents, accounting documents and any other documents relevant to the financing of the Programme
- The supporting document and records must be kept available for inspection by the contracting Authority for up to **five years** after the final balance of the grant is paid
- Ensure that staff know and understand the contractual conditions (these include the special conditions and the general conditions to the contract)
- Ensure that Programme documentation provides strong relevant proof
- State clearly the date until which the documents must be kept in the archiving system
- It should be noted that most contracts for EU funded external actions allow the contracting authority to perform audits and check up to seven years after the final payment

Several documents are needed to prove that expenses are eligible.

Why do we need documentation?

- To prove that the expense was for the Programme
- To prove that the costs were actually incurred
- The costs were incurred within the Programme period
- The costs were incurred in line with the specific contractual conditions

Records management is the process of controlling records from their creation, usage, maintenance, and storage to their ultimate destruction or permanent preservation.

16.2 Financial Records

A Financial record is anything that contains financial information in any format, e.g. electronic, paper, computer database, notes, minutes of meetings, letters, email, etc, which has been created or gathered as a result of any Programme activity or the conduct of its affairs that shall result into financial transaction or decision and is kept as evidence of such activity by employees – including consultants, agency or casual staff.

Records are a valuable resource because of the information that is contained within them and shall be kept providing evidence of an activity. A record must show details of the activity (what it was, when and how it occurred), what the transaction was, who participated and the outcome. Financial Records should be unchangeable, time-stamped, and tamper proof. Such high-quality information underpins the delivery of high-quality evidence-based financial transactions, and many other key service deliverables.

Financial information has the most value when it is accurate, up to date and accessible when it is needed. An effective records management system that ensures that information is properly managed and is available when and wherever there is a justified need to that information, and whatever media it is required shall therefore be put in place.

Financial Records may be needed:

- To support day to day business which underpins the delivery of an action of the Programme;
- To support evidence based good practice;
- To support sound administrative and managerial decision making
- To meet legal requirements;
- To assist in audit assignments;
- To support improvements in financial management effectiveness and also to support archival functions by taking account of the historical importance of material and the needs of future research;

16.3 Filing Systems

A paper filing system shall be in an Accounts office with adequate security, fire protection and away from bright light or risk of damage from water. It will be easily accessible. Shelves shall be put in place to facilitate this.

Paper filing systems which contain personal-identifiable information shall be safe and secure, i.e. lockable cabinets.

Paper filing systems should be housed in an appropriate manner, i.e. filing cabinet, filing cupboard, shelves, etc.

Electronic filing systems should be in a safe and secure area which is backed up on a regular basis and password protected.

17. RISK ASSESSMENT AND AUDITING

17.1 Financial Risk Management Systems

Financial risk management systems for grant implementing institutions is critical in ensuring the effective efficient and compliant use of funds. IPs are encouraged to establish a financial risk management strategy whose aim is to define the purpose of the financial risk management system and specify the scope of the system, including all financial activities and processes involved in managing EU grant funds.

17.2 Risk Management Framework

Risk management Policy

This is a formal policy that outlines the IPs commitment to identifying, assessing, managing, and mitigating financial risks

Roles and responsibilities

This defines the roles and responsibilities of personnel involved in risk management.

Risk categories

This involves identifying categories of financial risks relevant to Programme implementation. The risks could be:

- Misuse of funds. Risks of funds being used for no- eligible expenditures or nor Programme related activities. Mitigating measures include detailed budget tracking, approval processes for expenditure and regular reporting.
- Budget overruns. Risk of exceeding the allocated budget. Mitigated by the use of financial software to manage expenditures in real-time, hold budget review meetings
- Non-compliance with regulations. Risks of failing to comply with EU financial regulations and grant conditions. Mitigating factors could be training on EU guidelines and conduct compliance audits.
- Exchange rate fluctuations. Risks associated with changes in currency exchange rates affecting implementation costs.
- Cash flow issues. Risk of insufficient cash flow to meet activity needs. Mitigated by preparation of regular cash forecasts.
- Fraud and corruptions. Risks of fraudulent activities or corruption within the Programme. Enforce code of conduct.

17.3 Auditing

The Commission may, based on a risk assessment, contract independent audit or verification assignments to be done to Chilungamo II Programme.

The Programme shall be audited on an annual basis by external auditors appointed by the EU.

In addition to auditing the Programme's financial statements, the auditors may also conduct a systems audit to ascertain management controls.

It is imperative that the Implementing Partners abide by the rules and principles outlined in all sections of this Manual. It has been designed to provide guidance on the procedures of the direct grant general conditions.

As part of the compliance enforcement measures, the PMU shall conduct routine financial and activity monitoring checks. It may be considered useful and necessary, and for this purpose may demand to see any documents and records relating to the Implementing Partners' activities funded through the Direct Grant. In addition, the PMU may attend functions being hosted by Implementing Institutions, on an ad hoc basis, as a means of monitoring to ensure compliance with all the relevant instruments' procedures, as well as to assess the quality and effectiveness of the intervention.

However, being a Grant implementation modality, the Implementing Partners shall have audits from local auditors appointed by the Institutions. It should be noted however, that the EUs external audit's assignment might be extended to the IP for further verifications of the expenditures reported by the PMU on the grant transferred to the IP institution.

Implementing Partners may also apply own assurance engagements for their own comfort.

- **Use of Internal audit functions**

The IP's Internal audit functions can from time to time be engaged to ensure the orderly and efficient conduct of operations including among others the adherence to Programme policies, rules and regulations, safeguarding assets,

prevention and detection of errors and irregularities and promoting accuracy and reliability of the accounting records.

- **Compliance Audit**

An internal audit may be required to evaluate the adequacy and effectiveness of the controls as a basis for improving implementation results. The scope should be evaluating the effectiveness of internal controls.

- **Programme monitoring and evaluation systems**

This is the systematic process of evaluating and organization's effectiveness, efficiency and economy of implementations, reporting results of the evaluations along with recommendations for improvement. In essence the procedure

- **Appraises the economy and efficiency with which resources are employed**

Reviews to ascertain whether results are consistent with the established objectives and goals and whether the activities are implemented as planned

18. ASSETS AND EQUIPMENT PROCUREMENT BY THE PROGRAMME

18.1 General

The Programme shall procure assets such as motor vehicles, ICT and other Equipment. The general condition in the grant is that the assets shall be used for Programme related purposes. Any departure to the usage of the asset shall make the cost associated with the procurement of the asset ineligible.

18.2 Registration of the Assets

The assets shall be registered in the name of the Implementing Partner. Assets bought for PMU shall be registered in the name of Ministry of Justice.

18.3 Visibility

The Implementing Partners shall endeavor to display the EU stickers on Programme assets as part of visibility compliance.

18.4 Maintenance of Asset Register

Implementing Partner shall ensure that asset registers are maintained by responsible officers. The following is a minimum list of details in the register:

- Name of the assets
- Asset number
- Location (Head office/Regional office) where the office can be located
- Office where the asset is being used
- Economic useful condition of the asset

In addition, the IP shall ensure that other important documents related to the assets are maintained.

Documents such as registration certificates, software licences etc.

18.5 Accounting and Bookkeeping for Assets and Equipment

- Initial recognition of the assets shall be at cost and recorded in the non-current assets register of the IP in line with IAS 16.
- Each IP shall keep an updated non-current asset register indicating the condition of each asset.

However, assets for **PMU** shall be carried out in line with the government policy on non-current asset.

