



ACCOUNTING POLICIES AND PROCEDURES

Document No: 1

Distribution:
All Holders

Summary of Changes:
Revised January 2016

Originator : Sharlina Adnan

Reviewer :
Izzaddin A.Rahim
Mohamad Rizal Othman

Executive Director :
Ir Amran Mahzan

Issue : 02

President :
Dato' Dr Ahmad Faizal Mohd Perdaus

Effective Date : 20 May 2017

Purpose

1. To prescribe the accounting policy covering the Organisation financial accounting activities.
2. To provide an effective level of controls to ensure:
 - Operations decision are authorized and approved
 - Financial accounting activities are carried out in accordance to the approved standards and practices
 - Accounting actions have cross checks and audit trail
 - Management information is accurate and timely
 - Cost decisions are made with the best possible information

Scope

This section intended to provide manuals concerning all aspects of accounting processes and its related functions.

Attachments

None.

Associated Documents

1. Delegation of Authority Limit (DAL)

TABLE OF CONTENTS

- 1.0 GENERAL ACCOUNTING
- 2.0 RESPONSIBILITIES
- 3.0 FINANCIAL REPORTING
- 4.0 FINANCIAL REPORTING BY COUNTRY, FIELD & CHAPTER OFFICES
- 5.0 JOURNAL ENTRY
- 6.0 RECORD KEEPING & FILING
- 7.0 INTERNAL CONTROL
- 8.0 FRAUD CONTROL

1.0 GENERAL ACCOUNTING

- 1.1 The Organisation shall comply with Financial Reporting Standards (FRS) and Generally Accepted Accounting Principles (GAAP).
- 1.2 The Organisation shall establish and maintain adequate controls and a system of recording expenditures to ensure they are for authorised purposes and processed in a timely and accurate manner.
- 1.3 The Organisation shall incur expenditures only when both legal and financial authorities have been obtained to do so and in accordance to the respective manuals, guidelines and procedures.
- 1.4 In cases where expenditures are incurred as a result of negligence, the General Manager of Support Services and the Head of Finance shall determine the method of recovery. (Refer Delegation of Authority – 4.9 Payments)
- 1.5 The accounting policies shall be confirmed by the Treasurer and the EXCO annually at the time of approval of the audited financial statements.

2.0 RESPONSIBILITIES

- 2.1 The Management shall be directed to enforce vigorously the standards of this policy, and to maintain procedures designed to prevent such violation from occurring such as:
 - No false, misleading or artificial entries will be made on or required entries omitted from Organisation books, records, reports, or financial statements for any reason.
 - No undisclosed or unrecorded Organisation funds or Organisation assets will be established for any purpose.
 - Financial statements prepared from accounting records will contain all adjustments and disclosures necessary to fairly present the financial position and results of operations of the Society in accordance with the MASB Approved Accounting Standards for Private Entities and GAAP.
 - No payment from MERCY Malaysia's funds will be approved or made with the intention or understanding that any part of such payment is to be used for any purpose other than that described by the documents supporting the payment.
 - All payments must be supported by appropriately approved invoices or receipts, expense reports, or other customary documents, all in accordance with the established policy.

- Procedures and limitations established by the management with regard to custody of and access to the assets of MERCY Malaysia and the execution of transactions affecting such assets will not be deviated from without written authorisation from the next higher level of the management.

3.0 FINANCIAL REPORTING

- 3.1 The Organisation fiscal year-end shall be on the 12 months ended 31st December.
- 3.2 The Financial Statements shall be audited annually by Certified Public Accountants. The appointment of the auditors shall be approved at Annual General Meeting (AGM).
- 3.3 Reports may be prepared monthly, quarterly, semi-annually and/or depending on the needs of each category of users to ensure transparent reporting of utilization of funds, monitoring and evaluation of the efficiency and effectiveness of the management of the funds for projects and programmes.
- 3.4 Financial reporting for both internal and external purposes shall be done on a consistent basis.
- 3.5 The Closing of Financial Statements must be made on a monthly basis, by the **10th of every month**, this will include the Balance Sheet, Income Statement and General Ledgers.
- 3.6 Refer to 4.0 for the financial reporting for field, country and chapter offices.
- 3.7 Any inconsistencies in any transaction must be reported immediately to HQ Finance Department and written report must be given for internal auditing.
- 3.8 Audited Financial Statements are to be published in the Annual Report/Review, Organisation's website and/or any other public media deemed appropriate by the EXCO.
- 3.9 The audited Financial Statements should be sent out to registered members together with the notice of AGM.
- 3.10 Audited Financial Statements are to be made available to members of the public upon written request. The Secretariat is to provide the said report not more than 14 working days on the date of receiving the request.
- 3.11 Internal auditors shall be elected at the AGM to conduct periodic internal audits. It is recommended that an internal audit be carried out at least every six (6) months.

4.0 FINANCIAL REPORTING BY COUNTRY, FIELD AND CHAPTER OFFICES

- 4.1 The financial reporting by the Field (overseas) and Country offices will depend on the status of the establishment for that particular office. The status of establishment can be categorized as follows:

- i. Operating as a legally and officially **INCORPORATED** entity in that particular country
- ii. Operating as a **REGISTERED** humanitarian organization providing rehabilitation and recovery services and aid.

4.2 ***As a Legally & Officially Incorporated Entity***

- 4.2.1 Any legally and officially incorporated MERCY's entity outside Malaysia needs to maintain its own set of financial accounts in accordance to the Standard Financial Accounting Practices and Reporting for that particular country.
- 4.2.2 The financial accounts shall be subjected to the annual audit exercise to be conducted by the certified auditor in that country
- 4.2.3 The audited financial accounts will then be consolidated at MMHQ level for the annual MMHQ financial audit.
- 4.2.4 The financial accounts could be maintained in any suitable Financial Accounting Software such as UBS or other suitable accounting system
- 4.2.5 Alternatively, the financial accounts could be maintained and prepared in a manual manner i.e. in Excel or Ledger Book
- 4.2.6 The financial accounts comprising of Balance Sheet, Income Statement and General Ledgers must be submitted to MMHQ on monthly basis by **7th of every month.**

4.3 ***As a Registered Humanitarian Organization***

- 4.3.1 Any MERCY offices that only registered as Humanitarian Organization operating from a particular country is only required to maintain its financial reporting in the form of Cash Book and/or Bank Book.
- 4.3.2 However, the office must consolidate both the Cash and Bank Book into one (1) financial report and to be submitted to MMHQ by **7th of every month.**
- 4.3.3 All expenditure incurred and reported will be posted at MMHQ level and any surplus fund for the reporting period will be recorded as amount due from the field office.
- 4.3.4 The financial report shall not be subjected to the annual external audit exercise conducted by certified auditor in that country unless required by the local laws.
- 4.3.5 MMHQ may however appoint any certified auditor from Malaysia or locally to audit the financial reports.

- 4.4 All offices are responsible to keep the financial records and documents in orderly manner, Refer 6.0 Record Keeping and Filling.
- 4.5 All offices may be required to prepare other ad-hoc financial reporting especially on programs or projects as and when necessary.

5.0 JOURNAL ENTRY

- 5.1 The Journal Entry (JE) is an entry in a book of accounts which covers a non-monetary transaction - e.g. for recording a donation in kind or an adjustment for correcting a posting error.
- 5.2 It is designated as a computer-processing medium for direct input to the General Ledger (GL) system.
- 5.3 JE are used to:
- Correct errors;
 - Set up Accounts Receivables (AR) or Accounts Payables (AP) where this is not done directly from cheque vouchers or receipt forms;
 - Clear a suspense account that was used temporarily because the correct code number was not immediately available; and
 - Transfer a balance from a GL account to another.
- 5.4 All JE entries shall be assigned a serial number and issued in sequence.
- 5.5 All JE must be approved by the Head of Finance.
- 5.6 Occasionally, a coding error is discovered after the books for the previous year have been closed. An adjusting entry is not required if it affects only statement of operations accounts. These accounts are brought to NIL at year end.
- 5.7 An adjusting entry is required if the previous year's error affects an asset or liability account.

6.0 RECORD KEEPING AND FILING

- 6.1 It is vital that documentation relating to finance should be maintained in an organised manner. This is to ensure that information is stored properly so that it is easy to find (by non-finance staff and also finance staff). This extends to storage on computers as well as paper filing.
- 6.2 All documents including invoices, vouchers, receipts or any other documentation to support transactions must be filed and kept properly for at least seven (7) years for easy reference.
- 6.3 To avoid any risk of losing data, backup system must always be updated. It is recommended that the backup exercise is done weekly.
- 6.4 **Filing**
- 6.4.1 The aim of filing is to file all similar transactions in the same location so that they may be easily found. File as follows:
- i. Financial Statements and Reports
 - Balance Sheet

- Income Statement
- General Ledgers
- Cash Book
- Bank Book

ii. Bank statements

iii. Vouchers (all vouchers must be attached with the original and relevant supporting documents such as Purchase Requisition Form, Purchase Order, Delivery Order, Invoice etc. in a sequential order i.e. by number or date)

- Payment Vouchers
- Cash Vouchers
- Journal Vouchers
- Official Receipts

6.4.2 The above filing should be separated by month of reporting for ease of reference

6.4.3 Where possible, filing should also be according to the program or project.

7.0 INTERNAL CONTROL

7.1 Appropriate division of duties and responsibilities shall be established to commensurate with good internal financial control.

7.2 Spending authority and payment authority shall not be exercised by the same officer in respect of a particular payment. (Refer to the Delegation of Authority Limit Policy)

7.3 The commitment stage of spending authority is the stage at which authority to incur financial obligations on behalf of the Organisation is exercised. In exercising this authority, the incumbent shall ensure that commitments are made only within approved budget and for amounts earmarked. (Refer Delegation of Authority Limit – 3.0 Procurement)

7.4 The approval for payment stage of spending authority which entails approving the charge for payment once the initial commitment has been made and the goods received or services performed, shall only be exercised upon establishing that the transaction represents a valid and proper claim on the Organisation funds, and the claim is in accordance with the terms and conditions of the contract as well as it is being conducted in accordance to the Organization’s Policy and Procedures

7.5 Payment authority is the authority to verify and approve the requisition for payments after reviewing their legality and exercising all appropriate financial controls. Responsibility for the adherence and the enforcement of the financial controls rests with assigned delegated payment authority (Refer Delegation of Authority Limit - 4.9 Payments), but primary responsibility and accountability to incur the expenditure or payment rests

with those who are delegated spending authority (Refer Delegation of Authority – 2.0 Proposals and 3.0 Procurement).

8.0 FRAUD CONTROL

8.1 Definition

Fraud and corruption can be distinguished from other forms of unethical behaviour.

8.1.1 **'Fraud'** means dishonest activity, by the Organisation employees, volunteers, external persons, or other stakeholders, causing actual or potential financial loss to the Organisation, including the theft of moneys or other property. This includes the deliberate falsification, concealment, destruction or improper use of documentation used for a normal business purpose or the improper use of other information or position.

8.1.2 **'Corruption'** means dishonest activity in which an employee, and/or volunteer acts contrary to the interests of the Organisation and abuses his/her position of trust in order to achieve some personal gain or advantage for him or herself or for another person or entity.

8.2 The Organisation will not tolerate any act of fraud or corruption. This fraud control aims to foster an environment that actively discourages fraudulent activities in order to protect the Organisation's assets, interests and reputation, and to provide a transparent framework for reporting and investigating fraud should it occur.

8.3 In addition to this Fraud Control Policy and Procedure, MM is also bound to its Anti Money Laundering Policy applicable throughout the organization both local and overseas.

8.4 Fraud prevention and control must be the responsibility of all staff and all levels of management, and not just selected people or units within the Organisation. Staff are encouraged to familiarise themselves with the fraud control strategy and to be aware of the role they can play.

8.5 All staff must be above fraud and corruption. Sanctions will apply to those who are not. In addition, staff must act so they are not perceived to be involved in such activities. Through transparent and accountable decision-making, together with open discussion by staff and managers about the risks of fraud and corruption, the Organisation seeks to foster an organisational climate that does not tolerate fraud or corruption.

8.6 Any instances of fraud detected, as being perpetrated against the Organisation, will be fully investigated and the perpetrators prosecuted to the maximum extent allowed under the law.

- 8.7 Effective implementation of this fraud control will help ensure that public confidence in the integrity of the Organisation is maintained and the Organisation's ability to minimise the loss of resources due to fraud can assist the Organisation to achieve its strategic goals.
- 8.8 Apart from the legal consequences of fraud and corruption, improper acts have the potential to damage the Organisation's public image and reputation. Unresolved allegations can also undermine an otherwise credible position and reflect negatively on innocent individuals.
- 8.9 Roles and Responsibilities

8.9.1 Executive Council Member (EXCO) and Executive Director

- 8.9.1.1 To maintain public confidence in the integrity of the Organisation, it is essential that all EXCO exhibit, and are seen to exhibit, the highest ethical standards in carrying out their duties. EXCO must pursue, and be seen to pursue, the best interests of the donors and beneficiaries.
- 8.9.1.2 Public officials are expected to act in the public interest and to demonstrate ethical behaviour in carrying out their official duties. EXCO have special responsibilities by virtue of their positions of authority and their high levels of accountability for decision-making and leadership.
- 8.9.1.3 The Executive Director is responsible to report to the EXCO any matter that is suspected on reasonable grounds to be corrupt conduct.
- 8.9.1.4 All fraud and corruption investigation reports are referred back to the EXCO who then decides what action is necessary to address the investigation findings. Options available to the Executive Director include disciplinary action, referral to the Police for prosecution and appropriate recovery action.

8.9.2 Internal Auditors

- 8.9.2.1 Internal auditors provide service to management by assessing the adequacy and effectiveness of the systems of internal control in the Organisation and reports to management on omissions, weaknesses or deficiencies that require corrective action.
- 8.9.2.2 The auditors are to provide reasonable assurance to the EXCO that systems of internal control that will mitigate the impact of fraud are of a high standard, are cost effective and are functioning as intended.

- 8.9.2.3 The auditors are responsible for reviewing the Departments' compliance with laws, regulations, ethics, policies and rules regarding conflict of interest, misconduct, or fraud and the resolution of these cases and follow up on findings and recommendations.
- 8.9.2.4 The auditors undertake investigations on possible fraud that it detects and also investigates allegations of fraudulent activity reported to the Society if the allegation related solely to the Organisation and does not involve other organizations.

8.9.3 All Employees and Representatives

All staff and representatives are responsible for:

- 8.9.3.1 Monitoring their workplaces to identify and address situations that are likely to raise ethical dilemmas;
- 8.9.3.2 Ensuring that employees are not placed in potentially difficult or compromising situations;
- 8.9.3.3 Being available and supportive to employees who require guidance on conflict of interest and other ethical dilemmas;
- 8.9.3.4 Fostering the work environment free of harassment, discrimination, victimisation, corruption, mal-administration and waste;
- 8.9.3.5 Ensuring that all employees are aware of the principles contained in the Code of Conduct and the established systems and procedures for addressing ethical problems;
- 8.9.3.6 If an employee knows about or has good reason to suspect possible corrupt conduct, including fraudulent activity, within the Department, he/she must report the information to the Head of Department, General Manager, Executive Director and/or EXCO;
- 8.9.3.7 Supporting and protecting employees who report, in good faith, instances of potentially unethical or corrupt practices;
- 8.9.3.8 Ensuring the employees are treated fairly, equitably, and in accordance with relevant legislation and policy;
- 8.9.3.9 Ensuring effective and correct use of delegations of authority;
- 8.9.3.10 Ensuring that all employees involved in contact with individuals or organisations external to the Organisation

properly record their actions, comments and undertakings on organisational matters.

8.10 Areas at Risk of Fraud

An important part of fraud and corruption prevention is understanding where the areas of risk are in relation to the Organisation's responsibilities and functions. The following areas and functions are perceived to have high fraud and corruption risk ratings:

8.10.1 **Financial functions** – such as the receipt of cash, revenue collection and payment systems, salaries and allowances.

8.10.2 **Regulatory functions** – involving the inspection, regulation or monitoring of facilities and operational practices, including the issue of fines or other sanctions.

8.10.3 **Procurement and purchasing functions** – including tendering, contract management and administration.

8.10.4 **Other functions** – involving the exercise of discretion, or where there are regular dealings between public sector and private sector personnel (especially operations that are remotely based or have minimal supervision).

8.11 Examples of Fraud and Corruption

a) **Theft of assets**, such as:

- equipment
- consumables or supplies
- cash
- information

b) **Unauthorised or illegal use of assets**, information or services for private purposes, including:

- computers, including email and the internet
- motor vehicles
- clerical and other support
- confidential information
- equipment, including photocopiers, telephones and fax machines
- the organisational names and logo e.g. through use of letterhead or employee authority/access card.

c) **Abuse of position and power for personal gain**, such as:

- seeking and obtaining bribes or other gifts in exchange for favourable treatment
- bias in employee appointments

d) **Manipulation and misuse of account payments**, such as:

- unauthorised approval to pay
- writing off debts
- fictitious employees on the payroll
- ordering equipment for private and personal use
- favouring suppliers whose costs are not as competitive as other suppliers
- diversion of proceeds

e) **Falsification of records**, including:

- travel claims
- purchase orders
- petty cash vouchers
- timesheets
- certificates of competency or qualification

f) **Manipulation of computer programs for improper purposes**, such as:

- unauthorised alteration of input data
- misappropriation, destruction or suppression of output data
- alteration of computerised data
- alteration or misuse of software programs
- unauthorised and/or deceptive electronic transfer of funds

