

**Guideline  
for  
financial statements  
of  
projects funded by Kindernothilfe (KNH)**

Contents

- A. Introduction
- B. General requirements
  - 1. Basis of accounting
  - 2. Annual audit
  - 3. Annual financial statements
    - 3.1 Report of the auditor
    - 3.2 Balance Sheet/Statement of Assets and Liabilities
    - 3.3 Income and Expenditure Account/Receipts and Payments Account
    - 3.4 Explanatory notes and attachments to the accounts
  - 4. Deadline
- C. Specific requirements
  - 1. Fund accounting
    - 1.1 Restricted fund micro credit scheme/loan revolving fund
    - 1.2 Restricted fund for replacement of assets
    - 1.3 Legally required reserve
  - 2. Half-year financial report on budget implementation
- D. Imposition of sanctions

Appendices

- 1. Balance sheet/Statement of Assets and Liabilities
- 2. Income and Expenditure Account
- 3. Receipts and Payments Account
- 4. Budget comparison
- 5. Annual payroll costs/list of positions
- 6. Statement of fixed assets
- 7. List of payments received from KNH
- 8. Fund accounting

## **A. Introduction**

1. This guideline applies to all projects which are supported by KNH for 24 months or more, regardless whether the project receives the funds from KNH through a partner/coordination office of KNH or directly from KNH. (For projects which are supported by KNH for less than 24 months the “guideline for the application for and reporting on short/medium term project funding by Kindernothilfe applies”. A specific “guideline for relief and rehabilitation projects funded by KNH” applies to respective projects.)
2. The main objectives of this guideline are:
  - To give an account of the application of funds to KNH as the funding donor agency as well as to any other stake holder (like target groups, beneficiaries, public, government).
  - To give detailed information in terms of financial figures about the achievement of goals, the implementation of the plan of activity and of the budget.
3. The guideline takes into account that all funds from KNH are earmarked and designated for specific purposes: All funds have to be spent according to the purposes and budget approved by KNH. Without the sanction of KNH the designation of funds must not be changed.
4. Specific requirements are laid down for
  - Fund accounting
  - Half-year financial reports on budget implementation
5. Model formats for various statements are given in the appendices 1 to 8.
6. The requirements of this guideline will be applicable for all financial statements which refer to a financial year ending on December 31<sup>st</sup>, 2007 or later.

## **B. General requirements**

### **1. Basis of accounting**

In principle, accounting on accrual basis as well as the capitalization and depreciation of fixed assets are recommended. However, accounting on cash basis or receipts and payments basis is acceptable if this is in line with national rules and regulations and any standards required by law.

The financial statements have to show in national currency all incoming resources and the application of the resources taking into account all transactions of the project. Donorwise accounting and reporting as well as financial statements which only show the funds received from KNH and the application of these funds will not be accepted by KNH.

### **2. Annual audit**

The annual financial statements have to be audited by a registered chartered or certified public accountant (CPA). The auditor should be member of the national institute of chartered/certified public accountants. KNH reserves the right to select the auditor.

- The annual audit has to be conducted in accordance with generally accepted auditing standards and standards issued by the national institute of chartered accountants.
- The scope of audit as well as other services of the auditor and the audit fees should be laid down in an engagement letter.

- In addition, the project has to ensure that the work/audit programme of the auditor as well as the auditor's report take into account the requirements laid down in this guideline.

### **3. Annual financial statements**

The annual financial statements must be audited. It should include the following components:

- Report of the auditor
- Balance Sheet or Statement of Assets and Liabilities (appendix 1)
- Income and Expenditure Account or Receipts and Payments Account (appendices 2 and 3)
- Explanatory notes and attachments to the account

#### **3.1 Report of the auditor**

In its report the auditor is required to give an opinion as to whether the accounts give a true and fair view of the state of the project's affairs and of its incoming resources and application of resources for the year or – alternatively – that the receipts and payments account and the statement of assets and liabilities are properly presented.

In addition the auditor has to report

- if proper accounting records have not been kept
- if the accounts do not agree with the underlying records
- if the auditor has not received all information and explanations the auditor considered necessary
- whether the accounts adequately distinguish any restricted funds

The auditor should also prepare an auditor's letter to the management (also called internal control memorandum). On request, a copy of this should be sent to KNH.

#### **3.2 Balance Sheet/Statement of Assets and Liabilities**

The Balance sheet – or the Statement of assets, liabilities and funds (in case that accounts are prepared on cash basis) – summarises the assets, liabilities and funds of the project. In principle, the balance sheet items should be grouped under the following main categories:

##### Assets

- Fixed assets <sup>1), 2)</sup>
- Financial assets
- Stock/inventory
- Accounts receivable
- Cash at bank and in hand

##### Liabilities & funds

- Capital Fund <sup>1)</sup>
- General Fund
- Restricted fund(s) <sup>3)</sup> and reserves
- Liabilities and accounts payable

Notes:

- <sup>1)</sup> The balance sheet categories “fixed assets” and “capital fund” appears in case that fixed assets are capitalized and depreciated.
- <sup>2)</sup> Details of the fixed assets should be given in the explanatory notes to the accounts.
- <sup>3)</sup> The balance sheet category restricted fund(s) appear if the accounts have to reflect different types of funds according to the terms under which they were given to the project. “Revolving fund(s)”, the “Fund for the replacement of fixed assets” as well as any legally required reserve(s) have to be shown under this category. (For further information refer to paragraph C.1. of this guideline.)

### 3.3 Income and Expenditure Account/Receipts and Payments Account

The Income and Expenditure Account – or the Receipts and Payments Accounts (in case that accounts are prepared on cash basis) – summarises all incoming resources and the application of the resources. The set up of this account should follow the set up of the approved budget: the same categories and items in the same order. The account should show as comparative figures the figures of the previous financial year as well as the budget of the period under review.<sup>1</sup>

The incoming resources should be grouped under major categories like:

- Funds received from KNH <sup>1)</sup>
- Contribution from partner
- Other local contribution
- Funds from other donors
- Income from interest
- Any other income

The same goes for the application of the resources. Main categories should be:

- Direct expenses on project activities
- Contribution to micro credit scheme or loan revolving fund <sup>2)</sup>
- Research, monitoring, evaluation
- Personnel
- Running and administrative costs of the project
- Repair and maintenance
- Depreciation of/provision for fixed assets <sup>3)</sup>
- Other expenses and contingency
- Capital expenditure <sup>4)</sup>
- Administration-/over head charge partner <sup>5)</sup>

Notes:

- <sup>1)</sup> The “funds received from KNH” should be split up into “KNH project budget grant” and “other funds from KNH”. This split up could be given in the explanatory notes to the accounts or in the Income and Expenditure Account.
- <sup>2)</sup> Under this category the expenses for the establishment and the increases of the capital of micro credit schemes/loan revolving funds should be shown. The granting of credits as well as the repayment of loans will not be reflected in the income and expenditure account or in the receipts and payments account of the project, but in a separate statement showing the receipts and payments of the micro credit scheme/loan revolving fund. (For further information refer to paragraph C.1.1 of this guideline.)

---

<sup>1</sup> The income and expenditure account for the financial year 2007 should show as comparative figures the approved budget 2007 and the actuals 2006.

- 3) Depreciation has to be shown if fixed assets were capitalized and depreciated. Provision for fixed assets only appear if the project maintains a restricted fund for the replacement of fixed assets. (For further information refer to paragraph C.1.2 of this guideline).
- 4) Capital expenditure will appear only in the Receipts and Payments Accounts, but not in the Income and Expenditure Account. Nevertheless, also those projects which capitalize fixed assets should give details about the fixed assets purchased during the financial year.
- 5) In case that the project has to contribute to the administration-/over head costs of the partner it has to be reflected in the accounts of the project.

### **3.4 Explanatory notes and attachments to the accounts**

The explanatory notes to the accounts should include:

- Information about accounting principles.
- A Budget comparison which shows the variances between the actual amounts and the budget (refer to appendix 4). The actual amounts of the financial year should be compared to the annual budget (refer to appendix 4.1). If the project has a defined time-period and a defined overall budget for this time-period, the accumulated actual figures should be compared to the defined overall budget (refer to appendix 4.2).
  - Comments on major variances to the comparative figures. Especially the following variances have to be explained: variances to the budget of 15 % or more per budget item, but not less than Euros 1,500 and
  - variances to the budgeted personnel costs of Euros 1,500 or more (regardless the percentage).
- A List of positions/annual payroll costs (refer to appendix 5)
- A separate Income and Expenditure Statement for the Revolving Fund (or Receipts and Payments Account for the Revolving Fund) if the project has to establish and maintain a revolving fund (refer to point C.1.1 of this guideline).
- The total number of children benefiting from the project and the number of children supported through KNH sponsor ship scheme.

At the request of KNH, the following additional information should be attached to the accounts:

- Statement of fixed assets (refer to appendix 6).
- List of payments received from KNH (refer to appendix 7).

## **4. Deadline**

The audited annual financial statements have reach KNH 6 months after the end of the financial year of the project at the latest.

## **C. Specific requirements**

### **1. Fund Accounting**

Fund accounting is recommended for those projects which have to maintain different types of funds according to the terms under which they were given to the project. Especially, projects with different types of programmes and activities which are funded by various donors/funding agencies should implement fund accounting. (For details refer to appendix 8.)

### **1.1 Restricted fund for micro credit scheme/loan revolving fund**

A separate restricted “Revolving Fund” has to be established if the project has a micro credit scheme or a loan scheme which is revolving: From this fund loans are granted and repayments as well as interest are credited to this fund. In a separate statement the income/receipts and the expenditure/payments have to be reflected. The balance of this fund must not be mingled up with the general fund or other funds of the project. Therefore, it is recommended to open a separate bank account or a separate secure investment for this fund. The balance of this fund has to be shown in the Balance Sheet/Statement of Assets and Liabilities as a separate restricted fund.

### **1.2 Restricted fund for the replacement of fixed assets**

A “Restricted fund for the replacement of fixed assets” may be established by the project. The provision to this fund should not exceed the annual depreciation of fixed assets (excluding depreciation on buildings). Without prior written approval from KNH this fund may not be used for any other purpose. The balance of this fund must not be mingled up with the general fund or other funds of the project. Therefore, it is recommended to open a separate bank account or a separate secure investment for this fund. The balance of this fund has to be shown in the Balance Sheet/Statement of Assets and Liabilities as a separate restricted fund..

### **1.3 Legally required reserves**

Provisions have to be made for any legally required reserve, e.g. for compensation or retrenchment payments. The balance of this reserve should be set aside in a separate restricted reserve/fund and should not be mingled up with other funds of the partner/coordination office. Therefore, a separate bank account or a separate secure investment for this reserve/fund is recommended. The balance of the legally required reserve(s) has to be shown in the Balance Sheet/statement of Assets and Liabilities as a separate item.

## **2. Half-year financial report on budget implementation**

Projects which annually receive 100,000 Euro or more from KNH have to regularly prepare a half-year financial report which should reach KNH not later than 3 months after the end of the half-year. This report should consist of the following components:

- Income and Expenditure Account – or Receipts and Payments Account – for the first six months showing the current figures, the corresponding budget as well as the variances in national currency and in percentage. The set up of this account should follow the (approved) annual working budget.
- Notes explaining any variances to the budget of 1,500 Euros or more per budget item. Reasons for the variance(s) as well as action taken/decided should be reported.

At the request of KNH this half-year financial report on budget implementation should be submitted, even if a project receives less than 100,000 Euros per financial year.

#### **D. Imposition of sanctions**

1. KNH reserves the right to immediately stop all payments to a project if
  - the annual financial statements do not reach KNH in time (refer to paragraph B.4 of this guideline),
  - the annual financial statements cannot be accepted by KNH,
  - the half-year financial report on budget implementation is not presented, although KNH already reminded the project to submit it,
  - any additional information regarding the financial statements requested by KNH is not presented in time.
  
2. The annual financial statements cannot be accepted by KNH – unless something else has been agreed between the project and KNH in advance – if
  - the annual financial statements are not audited by a chartered accountant/CPA,
  - the auditor fails to express an opinion or expresses a qualified opinion<sup>2</sup>,
  - the annual financial statements do not show all assets, liabilities, and funds as well as all income/receipts and expenditure/payments of the partner/coordination office,
  - the budget comparison and/or the list of position/annual payroll costs are not attached to the accounts.

In these cases the project shall either rework the accounts for an audit, explain in detail what kind of actions have been taken to overcome the deficiencies and weaknesses, which are the reasons for the qualified opinion, and/or present the outstanding information as soon as possible.
  
3. In case that funds from KNH were not properly accounted for, KNH reserves the right either to deduct the respective amount from its next payment to the project or to oblige the project and/or the partner to reimburse the respective amount.
  
4. KNH will continue its payments to the project as soon as all reasons for stopping the payments have been eliminated.
  
5. KNH reserves the right to immediately stop its cooperation with a project if
  - the auditor consecutively expresses qualified opinions and/or
  - corruption, fraud, misappropriation, and/or mismanagement (waste of funds) were detected and verified.

Duisburg, October 2006  
Board of Directors

---

<sup>2</sup> An opinion is qualified if the auditor comes to the conclusion that the accounts do not give a true and fair view of the state of the partner's/coordination office's affairs and of its incoming resources and application of resources for the year or – alternatively – that the receipts and payments account and the statement of assets and liabilities are not properly presented.

## Appendices

The following model formats may be of help in presenting the different statements. However, the presentation does not matter as long as the required information is given.

### 1. Balance sheet/Statement of Assets and Liabilities

	as at ...	previous balance sheet date
Assets		
1. Fixed assets		
2. Financial assets		
3. Accounts receivable and other assets		
4. Cash at bank and in hand		
5. Deferred charges and prepaid expenses		
Total assets		
Liabilities & funds		
1. Capital Fund		
2. General Fund		
3. Restricted Funds and Reserves		
4. Provisions and accrued liabilities		
5. Liabilities/accounts payables		
6. Deferred charges		
Total liabilities & funds		

### 2. Income and Expenditure Account for the financial year from ... to ...

	this year	last year	variance to last year	in % to last year
Income				
1. Funds received from KNH				
2. Contribution from project carrier				
3. Other local contribution				
4. Funds from other donors				
5. Income from interests				
5. Any other income				
Total Income				
Expenditure				
1. Direct expenses on project activities				
2. Micro credit scheme/loan revolving fund				
3. Research, monitoring, evaluation				
4. Personnel				
5. Running and administrative costs				
6. Repair and maintenance				
7. Depreciation of/provision for fixed assets				
8. Other expenses and contingency				
Subtotal Project Expenditure				
administrative/over head charge of partner				
Total Expenditure				
Surplus/(Deficit)				

### 3. Receipts and Payments account for the financial year from ... to ...

	this year	last year	variance to last year	in % to last year
<b>Receipts</b>				
1. Funds received from KNH				
2. Contribution from project carrier				
3. Other local contribution				
4. Funds from other donors				
5. Income from interests				
5. Any other receipts				
<b>Total receipts</b>				
<b>Payments</b>				
1. Direct expenses on project activities				
2. Micro credit scheme/loan revolving fund				
3. Research, monitoring, evaluation				
4. Personnel				
5. Running and administrative costs				
6. Repair and maintenance				
7. Depreciation of/provision for fixed assets				
8. Other expenses and contingency				
9. Capital expenditure				
<b>Subtotal project payments</b>				
<b>administrative/over head charge for partner</b>				
<b>Total payments</b>				
<b>Excess of receipts over payments</b>				
<b>Cash at hand/in bank brought forward</b>				
<b>Cash at hand/in bank carried forward</b>				

### 4. Budget comparison

#### 4.1 Budget comparison for the financial year ...

	this year	approved budget (this year)	budget variance	in % of the budget
<b>Income/Receipts</b>				
1.				
2.				
...				
<b>Total income/receipts</b>				
<b>Expenditure/Payments</b>				
1.				
2.				
...				
<b>Total expenditure/receipts</b>				
<b>Surplus/(Deficit)</b>				

#### 4.2 Budget comparison for the time-period from ... to ...

	accumulated actual figures	approved budget for project time-period	portion of budget spent in %	variance to the budget
<b>Income/Receipts</b>				
1.				
2.				
...				
<b>Total income/receipts</b>				
<b>Expenditure/Payments</b>				
1.				
2.				
...				
<b>Total expenditure/receipts</b>				
<b>Net income/excess of receipts over payments</b>				

#### 5. Statement of fixed assets

	type of fixed assets, e.g.			Total
	Land & buildings	Motor vehicles	Furniture & equipment	
Cost				
1. at the beginning of the year				
2. Additions in the financial year				
3. Disposals in the financial year				
4. at the end of the year				
Depreciation				
1. at the beginning of the year				
2. Depreciation of the financial year				
3. Eliminated on Disposals				
4. at the end of the year				
Net book value				
1. at the beginning of the year				
2. at the end of the year				

#### 6. List of payments received from KNH during the financial year ...

date (when received)	purpose	amount in Euro (or in US-\$ if KNH transfers the funds in US-\$)	amount in national currency
...			
...			
...			
...			
<b>Total funds received:</b>			

## 7. List of positions/annual payroll for the financial year ...

position	name of staff member	annual salary	annual social securities	annual contribution to pension fund	annual contribution to provident fund	annual benefits and allowances	total costs per year
...							
...							
...							
...							
Total annual payroll costs:							

## 8. Fund accounting

	Unrestricted Funds	Restricted Funds <sup>1)</sup>	this financial year	last financial year
1. Income/Receipts				
1.1				
1.2				
...				
Total income/receipts				
2. Expenditure/Payments				
2.1				
2.2				
...				
Total expenditure/receipts				
3. Surplus/(Deficit)s				
4. Transfers between funds				
5. Balance at the beginning of the year				
6. Balance at the end of the year				

<sup>1)</sup> Examples: Revolving Fund(s), Restricted funds for the replacement of fixed assets, legally required reserve(s).

	Unrestricted Funds	Restricted Funds	this financial year	last financial year
Assets				
1. Fixed assets				
2. Financial assets				
3. Accounts receivable and other assets				
4. Cash at bank and in hand				
5. Deferred charges and prepaid expenses				
Total assets				
Liabilities & funds				
1. Capital Fund				
2. Fund balances and reserves				
3. Provisions and accrued liabilities				
4. Current liabilities/accounts payables				
5. Deferred charges				
Total liabilities & funds				