



**AFRICAN RESEACH CENTER FOR LIVELIHOOD RESTORATION AND  
SOCIAI RESPONSIBILTY(ARC-LRSR)**

# FINANCIAL REGULATIONS

## **1 - General Principles and Authority**

These Financial Regulations shall govern the budget and financial management of **AFRICAN RESEACH CENTER FOR LIVELIHOOD RESTORATION AND SOCIAI RESPONSIBILTY(ARC-LRSR)** and shall, unless otherwise specified by Board of directors, apply to all resources, funds and programmes administered by the **ARC-LRSR** Moreover, these Regulations respond to the financial control objectives as stated in the Organisation's Internal Control Framework. These Regulations and subsequent changes shall be approved by board of directors.

- 2 The Executive director shall ensure efficient and effective management of the Organisation, in accordance with these Regulations. To this end, the Executive director shall put in place controls, systems and processes designed to provide reasonable assurance that transactions are made in accordance with these Regulations, assets are safeguarded, and all of the Organisation's resources are well managed. The Executive director may delegate to other officials of the Organisation such authority as he or she considers necessary to this end.
- 3 The Executive director shall establish Financial Instructions specifying the implementation of these Financial Regulations and ensure that they reflect the Organisation's objectives, work programme and other elements of its environment. More detailed procedures, manuals and other supporting materials provide further guidance and will be updated as necessary.

## **Regulation 2 - The Programme of Work and Budget Cycle**

1. The financial period of the Organisation shall run for a year. The financial period shall extend from 1 January to 31 December.
2. The Executive director proposes, and the Board of directors approves, the Programme of Work of the Organisation as well as the Budget for the current year.

### **Regulation 3 - Presentation of the Programme of Work and the Budget**

- 1 The Programme of Work sets out the Strategic Objectives, Output Groups, Output Areas and Output Results for the Organisation.
2. The Budget refers to the sum of the appropriations financed from assessed contributions and other income. Voluntary contributions and grants are not considered as part of the Budget of the Organisation. They are resources additional to the Budget. Best estimates of the voluntary contributions and grants required to produce the Programme of Work are provided in the framework of Programme of Work and Budget proposals.
3. For the Budget, approval by Board of directors shall be at the Output Group level and, for Part II Budgets, at the level of individual Programmes.
4. The principal source of financing of the Budget shall be the assessed contributions of all Members. The Budget may also receive other income, including publications income, interest income and contributions from Programmes to cover overhead costs.
5. The Budget of each individual Programme shall be financed by assessed contributions from participating Members and other Programme participants, if any (hereinafter collectively referred to as "Participants"), and/or by other income. Participants wishing to withdraw from Programmes shall give the Organisation formal notice to this effect at least twelve months in advance and shall continue to be responsible for the payment of their contribution for that period. Programmes may also be financed by voluntary contributions and grants.
6. When establishing a new programme, Board of directors shall decide, in light of its content, participation or financing arrangements, under which Part of the Budget it shall fall.

### **Regulation 4 - Preparation of the Programme of Work and the Budget**

1. The Executive director shall issue the draft Programme of Work and Budget proposals for Part I for the next financial year by 31 October of the current year for review by the Budget Committee. The recommendations of the Budget Committee to Board of directors shall be transmitted by 1 December.
2. The draft Programme of Work and Budget proposals and annual updates thereto shall provide such information, annexes and explanatory statements as may be required, including reporting on efficiency measures.

### **Regulation 5 - Approval of the Programme of Work and the Budget**

1. The Board of directors shall approve the Programme of Work, the Budget for the financial period before the first day of the first financial period.
2. In approving the Budget, Board of directors accords the necessary expenditure authorisation to the Executive director and makes the necessary appropriations for the functioning of the Organisation and the carrying out of its

Programme of Work. Approval of the Budget by Board of directors shall empower the Executive director to receive the contributions and other income included in the Budget.

4. If it has not been possible to approve the Budget before the first day of a financial period: a) Board of directors may authorise the Executive director to commit expenditure and to make payments in respect of each quarterly period for each Output, not exceeding one-fourth of the corresponding appropriations included in the Budget for the preceding financial period, and to collect the corresponding contributions and other income; b) commitments for capital expenditure shall not be authorised except where Board of directors considers them to be necessary; c) the Executive director shall be authorised to make commitments necessary for the preservation of the assets of the Organisation and to make payments in discharge of legal obligations until the Budget is approved.

### **Regulation 6 - Modifications to the Programme of Work**

Any modification to the approved Programme of Work, whether alone or together with, or as a consequence of, modifications to the associated resources shall be made in accordance with procedures established by Council.

### **Regulation 7 - Revisions of the Budget**

1. Any proposal to adjust the provisional budget for the subsequent financial period should be issued by the Executive director by 31 October of the current financial period.

2. Should circumstances so require, the Executive director may submit proposals to Board of directors to increase the level of Budget appropriations to be covered by assessed contributions or other income. The actual level of all such income and expenditure shall be reported in the annual financial statements and regular Budget Result reporting.

3. In case of urgent expenditure for which the necessary appropriations were not included in the Budget, Board of directors may authorise the Executive director to call on Members to make additional contributions to cover such expenditure until such time as a proposal to adjust the level of the Budget has been approved.

### **Regulation 8 - Transfer of Appropriations Within a financial period**

the Executive director may transfer appropriations between Output provided that the total amount transferred in each financial period represents no more than KE 250 000 or 5%, whichever the higher, in the limit of KE 500 000 of the approved appropriations of each of the source Output Group and the receiving Output Group. Transfers falling outside these limits shall be subject to approval by the Budget Committee. All transfers of appropriations shall be reflected in regular reporting to the Budget Committee.

## **Regulation 9 - Commitments and Expenditure to be made in a Future Financial Period**

1. The Executive director may request authorisation from the Budget Committee to undertake commitments in a future financial period in the following cases: a) for investment expenditure, such authorisations to remain valid without time limit unless otherwise specified; or b) for Output Results specifically approved to be carried out over a period of years and for which a global amount has been decided by Board of directors, such authorisations to remain valid for the intended period of the Output Results concerned. Where feasible, such requests for authorisation shall be accompanied by a table indicating, for each commitment, the amount of expenditure foreseen in respect of future financial periods.

2. The Executive director is authorised to undertake commitments in the current financial period for expenditures to be made after the end of that period in the following cases:

a) Employment of staff;

b) Property rental;

c) For Output Results which are intended to be carried out over the financial year, commitments relating to contracts for the procurement of goods and services in the first financial period for expenditure to be made in the second financial period of the year, provided that the Output Results are included in the Programme of Work and the provisional Budget for the second financial period of the year; and

d) Contracts for the procurement of goods and services other than those described in paragraph c) above: i) not exceeding a firm period of 12 months; ii) exceeding a firm period of 12 months, provided that the total expenditure over the entire period of the commitment does not exceed KE 150 000. In cases other than those set forth in paragraphs a) to d) above, the Executive director shall seek the specific authorisation of the Budget Committee before undertaking commitments in a financial period involving expenditures to be made after the end of that period. These requests for authorisation shall provide estimates of expenditure foreseen in respect of future financial periods. The Executive director shall return to the Budget Committee for further authorisation should the actual expenditure exceed the estimated amount by more than 10% or KE 100 000, whichever is the lower.

These variations will be included in the annual report on multi-year financial commitments provided to the Budget Committee for information.

## **Regulation 10 - Carry Forward of Resources**

1. Appropriations corresponding to expenditure committed but for which no payment has been made by the end of the current financial period or at the expiry date of the complementary period, as defined in Regulation 6, shall be carried forward automatically to the Budget of the ensuing financial period. Appropriations so carried forward shall be used only for the realisation of the commitments that justified their carry forward.

2. Appropriations for the first financial period that have not given rise to a commitment by 31 December of that period may be carried forward by the Executive director to the second financial period of the year, provided the relevant Budget is not in deficit, for the purpose of implementing the Output Results to which the appropriations were applied. Other carry forwards not satisfying this condition shall be subject to approval by Board of directors. Unless Board of directors decides otherwise, any remaining Net Results shall be allocated to the relevant Members and/or Participants.

3. At the end of the second financial period, the Board of directors may decide, at the request of the Executive director, that some or all of the Net Results be carried forward to the Budget for the ensuing financial period. Unless Board of directors decides otherwise, any remaining Net Results shall be allocated to the relevant Members and/or Participants.

4. Reporting on carry-forwards shall be provided as part of the final Budget Results Report

### **Regulation 11 - Types of Income**

The income of the Organisation shall consist of assessed contributions, voluntary contributions, grants and other income.

### **Regulation 12 - Assessed Contributions and Scales of Contributions**

1. The total amount of the assessed contributions of Members shall be calculated so as to cover the appropriations authorised in the Budget of the Organisation, taking into account other income.

3. Budget the assessed contribution of each Member shall be calculated in accordance with the general scale of contributions approved by the Budget Committee for the financial period. Absent such approval by 31 March of the financial period.

4. Each participant's share in financing these Programmes shall be fixed in accordance with the general rules and principles or such other methods as Board of directors may have determined.

5. No later than 1 March of each financial period, the Executive director shall inform Members of the amount of their assessed contributions for that financial period, in accordance with the provisions of the present Regulation. Assessed contributions shall be payable in KE.

6. The Executive director may, before the end of each financial period, invite Members to make advance payments in respect of their assessed contribution liability for the following financial period. Such requests shall not exceed an amount equal to 90 per cent of each Member's assessed contributions for the current financial period.

### **Regulation 13 - Contributions of New Members**

Those who become Members during the financial period shall be required to make a contribution for that period according to the scale or share decided by Board of directors upon the advice of the Budget Committee. The disposition of such a contribution shall be decided by Board of directors.

### **Regulation 14 - Voluntary Contributions and Grants**

1. Income in the form of voluntary contributions from Members or grants may be provided to the Organisation for the implementation of the Programme of Work and shall be the object of a corresponding appropriation. The Executive director shall maintain a system of control of the terms and conditions of a proposed voluntary contribution or grant.
2. Within that system of control, the Executive director is authorised to accept any voluntary contribution or grant in an amount not exceeding KE 250 000. Other voluntary contributions or grants are subject to acceptance by the Budget Committee.
3. Appropriations in this category which have not been committed before the end of the financial period may be carried forward by the Executive director to the ensuing financial period for the completion of the Output Results to which the amount was applied, and in accordance with any relevant donor conditions.
4. Quarterly reports shall be made on voluntary contributions and grants accepted and on the status of their collection and arrears.

### **Regulation 15 - Income Offsetting Expenditure**

Income may be treated as offsetting expenditure to which it relates. Such cases may include insurance reimbursements, internal billing within the Organisation, interest income and expense.

### **Regulation 16 - Financial Risk Management**

An effective system of financial risk management shall be established to identify and address internal and external risks to the Organisation, on an ongoing basis throughout the year, and bring them to the attention of the Budget Committee and the Audit Committee in a timely manner.

### **Regulation 17 - Bank Accounts and Payment Orders**

In accordance with the principles established in the Organisation's Internal Control Framework, the Executive director shall designate the officials authorised to open the Organisation's accounts in banks or similar institutions, and shall designate the officials authorised to approve payment signatories.

## **Regulation 18 - Control of Expenditure**

1. The Executive director shall put in place all measures required for effective management of all of the Organisation's expenditure so that the approved Programme of Work is carried out in an optimal manner.
2. Directors, heads of programmes, or other officials to whom the Executive director entrusts the responsibility of a budget should, in delegating authority, ensure due regard to accountability and the principle of segregation of duties. The measures put in place by them to control the Organisation's expenditures shall provide, inter alia, the reasonable assurance that:
  - The expenditure relates to, or is useful for, the implementation of the Programme of Work;
  - The expenditure represents the best value for the Organisation;
  - The expenditure envisaged can be carried out in conformity with the Financial Regulations, the Financial Instructions or other rules applicable to the Organisation;
  - Sufficient resources are available to pay for the proposed expenditure; and
  - The supporting documentation required for the expenditure is available and appropriate.
3. The Chief of Finance shall establish a system of Budget control to periodically forecast the Budget results for the financial period. If risks of budget over-expenditure or under-realisation of income in respect of the Budget, are so identified, the Chief of Finance may suspend the use of appropriations or of specific commitments of appropriations for which no legal commitments exist.

## **Regulation 19 - Procurement of Goods and Services and Procurement committee**

1. Procurement" is the acquisition by the Organisation from third parties of all goods and services necessary for its functioning or for the implementation of the Programme of Work.
2. The procurement of goods and services shall be made in accordance with provisions to be set out in the Financial Instructions, in order to optimise the use of resources and to maximise transparency in the selection of suppliers. To this effect, the Financial Instructions shall define the conditions under which the relevant competitive procurement processes, including calls for tender, shall be carried out.
3. A Procurement committee is established by the Executive director. It provides an opinion to the official responsible for the decision to commit the Organisation vis-à-vis third parties for all transactions for which a call for tenders is required. The committee expresses an opinion on the

regularity of the procedure, the appropriateness of the choice of supplier and the terms and conditions of the proposed contract before its signature. Should the opinion of the Procurement committee not be followed, this occurrence shall be reported to the Procurement committee, together with the relevant explanations.

4. In exceptional cases defined in the Financial Instructions, derogations with respect to the procurement process may be granted by the Procurement committee.

5. The Executive Director may also grant derogations in cases of overriding urgency or due to exceptional circumstances. Any such derogation shall be reported to the Procurement committee at its next meeting following the derogation and to the Audit Committee at the same time.

6. The Procurement committee shall submit an annual activity report to the Budget Committee for information.

### **Regulation 20 - Non-Budgetary Expenditure**

The Chief of Finance shall authorise non-budgetary expenditures and ensure that they be made within the limits of the corresponding amounts of income available. Non-budgetary expenditure does not contribute to the achievement of outputs in the Programme of Work and includes expenditure related to seconded staff from the Organisation, transactions concerning reserves and technical operations in the Organisation's accounts.

### **Regulation 21 - Grants, Subsidies and Scholarships**

1. The Organisation may provide grants or subsidies to bodies, insofar as such grants or subsidies are indicated expressly in the Organisation's Programme of Work and Budget or in co-operation agreements supporting the implementation of the Programme of Work.

2. The Organisation may also provide scholarships to individuals or groups of researchers in support of their research or training, insofar as such scholarships are indicated expressly in the Organisation's Programme of Work and Budget.

### **Regulation 22 - Cash Management Operations**

1. The Executive director is authorised to carry out cash management operations which are necessary in the interests of the Organisation. In particular, the Executive director may invest on a short term basis funds not immediately required or borrow funds in case of a deficit in the general treasury to finance expenditure authorised in the Budget.

2. The Executive director shall inform the Budget Committee of investments and borrowings made and shall take account of any proposals made on such occasions.



### **Regulation 23 - Working Capital Fund**

Board of directors may, if necessary, establish a working capital fund.

### **Regulation 24 - Writing off of Loss of Assets**

The Executive director may authorise the writing off of loss of assets. The Executive director shall seek the prior approval of the Budget Committee before writing off any loss of assets of the same type in an amount in excess of KE 200 000. A full statement of all amounts written off shall be attached as an annex to the financial statements.

### **Regulation 25 - Signature of Legal Instruments**

Any instrument whereby the Organisation enters into a legally binding commitment vis-à-vis third parties and that necessarily entails expenditure, income or loss of income for the Organisation, or that necessarily affects the Organisation's assets, shall be signed by an official empowered to do so by virtue of the Financial Regulations, the Financial Instructions, the Regulations, Rules and Instructions applicable to the various categories of the Organisation's staff or, lastly, a written authorisation or delegation by the Executive director .

### **Regulation 26 - Accounting**

1. The accounting records of the Organisation shall be maintained in KES.
2. The financial statements of the Organisation shall be prepared in accordance with International Public Sector Accounting Standards (IPSAS).
3. The Organisation's accounting system shall support the effective management of the Programme of Work and the Budget.
4. The Executive director shall ensure that accounting records, as well as the programmes and equipment required to consult them, be kept for 10 years. Supporting documentation shall be kept for 5 years after the closing of the corresponding accounts. In the case of payroll records and their supporting documentation, the time period is extended to the life of the Organisation plus 50 years.
5. All invoicing related to assessed contributions, voluntary contributions, grants, sales of publications and any other income shall be carried out under the control of the Chief of Finance.
6. At the beginning of each financial period, the Executive director shall have until 15 February inclusive to close the accounts of the previous period. During this complementary period, the Executive director may authorise commitments and may make payments out of the Budget for the previous financial period and from voluntary contributions accepted before the end of the previous financial period.

## **Regulation 27 - Reporting**

1. Reports on the forecasted Budget Results for the financial period shall be presented periodically to the Budget Committee. A final Budget Result report shall be presented to the Budget Committee after the annual closing of the accounts. The presentation of these reports shall be consistent with the presentation of the Budget as described in Regulation 3. The reports shall, inter alia, compare the Budget Results to the approved Budget and shall include information on the use of Budget appropriations, the financing of appropriations, and a summary of transfers of appropriations. The final Budget Result report for a financial period shall also present a table outlining all income offsetting expenditure in the budget accounts, comparative analyses with prior year expenditure, a summary of all carry-forwards of appropriations, as well as a table regarding the administrative cost recovery charge on voluntary contributions and grants.

2. The treasury position of the Organisation, including the collection of assessed contributions, shall be presented to the Budget Committee on a quarterly basis. At least once per year, a report shall provide a full assessment of the general cash position, investments or short-term borrowings related to treasury surpluses and deficits, interest income and expense, bank fees and foreign currency exposure management.

3. Subject to 4 below, the Executive director shall, inter alia, present the following additional reports to the Budget Committee, and as may be appropriate, to Board of directors :

i) Quarterly reports on voluntary contributions and grants accepted

ii) Quarterly reports on the collection and arrears of voluntary contributions and grants

iii) Regular financial reports on publications

iv) Programme Implementation Reporting (PIR), presented following the end of financial year.

v) Regular reports on reserves

vi) Regular reports on the Executive director 's Allocation Fund

vii) Regular reporting on Multi-Year Financial Commitments, including variations in commitments and expenditure to be made in a future financial period

viii) Medium Term Orientations Survey

ix) Annual activity report from the Procurement committee

4. The Budget Committee shall review reporting requirements periodically or upon a proposal from the Executive director or Board of directors.

## **Regulation 28 - Delegation**

Except as otherwise provided by, inter alia, the Regulations, Rules and Instructions applicable to the various categories of staff, an official authorised to act by virtue of the Financial Regulations, the Financial Instructions or a specific instrument assigning authority, may delegate this authority in writing to another official. Except if authorised in writing, the official to whom a power has been so delegated may not sub delegate it.

## **Regulation 29 - Residual authority**

In the event of the absence or incapacity of an official expressly authorised to act by the Financial Regulations or the Financial Instructions, or should the post in question be vacant, the Executive director or the hierarchical superior of the official in question, shall be authorised to so act. Should the post in question be vacant, they may also confer these functions on another official, in writing, on an interim basis.

## **Regulation 30 - Internal Audit**

1. There shall be an Internal Auditor who shall report directly to the Executive director. The Executive director appoints and terminates the appointment of the internal Auditor with the consent of Board of directors and in light of the opinion of the Audit Committee. The Internal Auditor shall serve for a maximum single term of five years.
2. By adhering to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, Internal Audit shall provide the Executive director with an independent and objective assurance and advisory activity designed to add value and improve the Organisation's operations. It shall help the Organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
3. The annual programme of work of Internal Audit, including performance audits, shall be determined by the Executive director and the Internal Auditor.
4. The Internal Auditor shall report audit findings to the attention of the managers of the Organisation, who need such information to rectify deficiencies and to ascertain the extent to which recommendations have been implemented.
5. An annual report to Board of directors shall be prepared by the Internal Auditor.
6. Under the authority of the Executive director, Internal Audit shall have operational independence in the conduct of its duties. It shall have the authority to initiate, carry out and report to the Executive director on any matter which it considers necessary to fulfill its mandate and objectives and shall have access to the Organisation's activities, records, property and personnel. It shall have direct and free access to the Audit Committee.

### **Regulation 31 - Audit Committee**

1. There shall be an Audit Committee of Board of directors which shall monitor the independence and effectiveness of the internal and external audit functions and review the financial situation of the Organisation. It shall report to Board of directors on a regular basis.
2. The Audit Committee shall be composed of three members designated by Board of directors.
3. The term of office of all members other than the Chair of the Budget Committee, shall be renewable yearly by the Board of directors.
4. The Audit Committee shall adopt recommendations on a consensual basis. In the case of any dissent among Committee members, the conclusions of the Chair, together with the dissenting opinion, shall be presented in the subsequent Committee report.
5. The Board of directors appoints the Chair of the Audit Committee who shall be the Chair of the Budget Committee.
6. No member of the Audit Committee shall be from the same institution as the External Auditor. The three expert members shall be reimbursed for their travel and accommodation costs, and if deemed necessary, may be remunerated.
7. The Audit Committee's functions shall be as follows:
  - Review and comment on the annual work programme of the internal and external audit functions, including updates thereto;
  - Review the management responses to, and implementation of, the recommendations by the internal and the external audit function; and
  - Review the financial situation of the Organisation as well as its internal control system and its risk management system;
  - Provide an opinion to Board of directors regarding the Executive director 's appointment, and termination of appointment, of the Director of Internal Audit;
  - Recommend to Board of directors the terms of reference for the External Auditor, including the performance audits to be carried out by the External Auditor, and, following a process of call for tender, recommend to Board of directors the appointment of the External Auditor;
  - In coordination with the Budget Committee, transmit its recommendations to Board of directors on the discharge of the Executive director from all liability in respect of his or her administration during the financial period.
8. The Audit Committee shall meet with the external and internal audit functions, and, as appropriate, other officials of the Organisation.

9. A staff member of Internal Audit nominated by its Director shall perform the functions of secretary to the Audit Committee (agenda, meeting summaries, and other administrative duties).

### **Regulation 32 - Mandate and Functions of the External Auditor**

1. The annual financial statements and the soundness of the financial administration of the Organisation and of the Staff Provident Fund shall be audited by an External Auditor, which shall be the Supreme Audit Institution of an ARC-LRSR. The External Auditor shall be appointed by Board of directors following a process of call for tender, under the conditions and subject to the terms of reference established by Board of directors, at the recommendation of the Audit Committee.

2. The appointment of the External Auditor shall be for a four-year period with the option of one extension of two years non-renewable.

3. The primary function of the External Auditor, by means of its audits, is to assist the Elimu Maisha members, in determining whether the management has established systems and practices that provide reasonable assurance that the Organization's financial, human, and physical resources are safeguarded and protected; that operations are conducted economically and efficiently; and that the operations of the Organization are effective in carrying out its mission. To that end, the External Auditor shall be required to audit ARC-LRSR annual financial statements, and those of the Staff Provident Fund, in accordance with International Standards on Auditing established by the International Federation of Accountants, and to express a "true and fair view" opinion thereon.

4. The External Auditor shall carry out such examinations and enquiries as it considers necessary to enable it to report to Board of directors on the Organisation's annual financial statements.

5. In addition, the External Auditor shall be tasked with performance audits. These performance audits include assessment of effectiveness, economy and efficiency of ARC-LRSR activities.

### **Regulation 33 Submission of the Annual Financial Statements to the External Auditor**

The Executive director shall submit the annual financial statements of the ARC-LRSR and of the ARC-LRSR Staff Provident Fund to the External Auditor no later than the 31 March after the close of the financial period.

### **Regulation 34 - Report of the External Auditor on the Annual Financial Statements**

1. The External Auditor shall report to Board of directors on the annual financial statements of ARC-LRSR and of the ARC-LRSR Staff Provident Fund no later than the 31 May of the year following the close of the financial period in question. No later than the 31 July, the External Auditor shall prepare a second report on the budget

results of the Programme of Work and Budget, and on the outcome of the performance audits. These two reports shall constitute the joint report certifying the accounts and setting out the comments warranted by their audit.

2. On the basis of this report and upon recommendation by the Audit Committee, reached in coordination with the Budget Committee, Board of directors shall discharge the Executive director from all liability in respect of his or her administration for the financial period. Upon this discharge, the net results will be allocated.