LEPL Prevention for Progress

Financial Accounting Guide

Approved LEPL Prevention for Progress

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Content

1. Selecting and Using Accounting Policy

The following laws, bylaws, and orders are used to develop this accounting policy:

1. Law on Accounting, Reporting and Audit
2. Order N n-7 of the Head of Accounting, Reporting and Audit Supervision Agency;
3. Financial reporting standard for non-profit (non-commercial) legal entities;
4. Civil Code of Georgia;
5. Tax Code of Georgia.

Apart from the above-mentioned laws and regulations, the organization may/is required to use other necessary orders and regulations during its operations which will ensure its proper tax administration. This accounting policy of the organization comes into force on 21st of February 2022, applies to the past period of the organization and is continuously valid throughout the period of the organization's operation.

The already developed and introduced accounting policy shall ne regularly reviews towards new/renewed standards, thus minimizing the risk of inaccuracies in accounting and financial reporting due to outdated standards. Based on the above, the management of the organization together with the Chief Accountant/Accountant reviews the financial accounting guide as needed makes relevant amendments to it.

Changing this accounting policy is allowed in two cases:

- ✓ Mandatory change: is required by the amendments to the financial reporting standard used by the organization, or/and

- ✓ Voluntary change: if such amendment ensures presenting more reliable and relevant information by the financial reporting (discussions on reliability and relevance).

This guide is developed for the LEPL Prevention for Progress. It covers most of the aspect of the organization's operation as much in detail as possible the guide shall be used together with the Administrative Procedures Guideline and Organization Statute of the Prevention for Progress. The organization also complies with the relevant accounting and financial requirements of donor organizations.

Accounting principles

The guide is based on the Financial Reporting Standard for Non-profit (non-commercial) Legal Entities. The standard sets the following:

"If this standard does not cover the requirements of a non-profit legal entity for a specific accounting unit, the following shall be used: Financial Reporting Standards for the Enterprises of the Fourth Category, International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) or International Financial Reporting Standards (IFRS).

If these standards do not specifically cover any economic event (e.g.: operation, event or condition), the LEPL management shall discuss and develop accounting policy, informaiton based on which will:

(a) Fairly reflect economic event;

(b) Express its content and not only legal form; and

(c) provident…"

Basic Accounting Technologies

The accounts plan and accounting principle set in the guide is based on so called Fund Accounting technique. Generally, fund accounting means such organization of an accounting system, which enables separate accounting and accordingly, independent financial reporting for each project (source for resources, or fund), and at the same time, producing and submitting comprehensive, organization-wide reports.

Using fund accounting has several strong advantages:

- **Production of financial reports for the project** – As a rule, each donor, at regular intervals, requests submitting financial information, showing a resume of funds transferred by this donor only and their management. Fund accounting ensures producing and submitting such information not only in aggregated form but also in the smallest detail without additional accounting work;
- **Integration of management accounting elements** – Fund accounting enables preparation of detailed management information for each direction of operation anytime;
- **Strong internal control environment and low risk level of financial reporting** – Basic principles integrated in fund accounting ensure compliance with all structural and basic requirements of the International Accounting Standards (IAS). One of the problematic topics for the accounting of non-profit organizations is maintaining revenue and expense compliance. Fund accounting technique minimizes risk of violating compliance principle.

As the activities of Prevention for progress is mostly related to administering funds received in a form of grants received from the donors, this financial accounting guide focuses on this area, however, is not limited to the later and also reviews accounting and tax issues related to the activity.

2. General Principles of Accounting and Accountability

2.1 Working Currency of the Organization

Working currency of the organization is a national currency, Lari (GEL).

2.2 Accounting System

The general accounts plan is based on the accounts plan recommended by Georgian Federation of Professional Accountants and Auditors. As for the specific formation of separate accounts, they are based on the fund accounting technique discussed previously. Principles used for formation of the accounts and sub-account do not contradict accounts plan recommended by Georgian Federation of Professional Accountants and Auditors, however, considering organizational characteristics of Prevention for Progress, renaming some basic accounts and adding specific main accounts became necessary. Organization uses accounting software Oris. Accounting is fulfilled in the form of projects for each grant. For the right administration of the budget, Excel software is used additionally.

Expenses are grouped according to their economic content.

Structure of incomes and expenses:

General Accounts Plan

2.3 Provisions and Main Principles

Main principles of financial reporting are:

- **Accounting on the principle of functionality** – By the end of each reporting period, the management analyses continuation of organization's operations for at least next 12 months. The management does not aim at liquidation of termination of operations, neither is obliged to do so;

- **Accrual method** – When using accrual method for the purpose of preparing financial report, operations and events immediately after they are performed (and not depending on when the cash or cash equivalents will be entered or withdrawn). They shall be reflected in the accounting registers and financial reports of the period their occurrence date belongs to. Expenditure should be recognized in the income statement on the basis of the direct relationship between the specific articles of expenditure and revenue. **The organization may prepare report for the donors with cash method;**

- **Acknowledgement of true and fair viewpoint** – Conscientious reflection of economic operations, other events and circumstances, in line with the definitions and recognition criteria for the assets, liabilities, revenue and expenses;

- **Essence** – Information is essential if omitted or misrepresented, individually or in combination, it can have an impact on the economic decision taken by the customers, based in the financial report of the organization. Essence depends on the size and character of omitted or misinterpreted information, which shall be discussed taking account the relevant circumstances.

3. Basic Accounting Methods

3.1 Cash and Bank, Bank Transactions

Organization has its account open in JSC Bank of Georgia. Organization uses internet banking and is protected with two-eye principle, meaning preparation of relevant transfers by one and confirming them by another employee. Organization practically does not make cash purchases or payments if a project to be implemented or agreement with the donor determine otherwise. However, cash stored in the office shall not exceed 200 Gel at any time. A safe is used to store cash. For cash payments, the organization uses cash income and payment orders. Accountable person (employee) shall submit expenditure documents for the amount issued to him to the accountant no later than three calendar days after receipt of the amount and shall return the unspent amount. Advance report on the receipt and spending mentioned amount is prepared by the accountable person, approved by his, director's and accountant's signatures. Issuing new amount to the same person is not allowed if expenditure documents for a previously issued amount has not been submitted or cash returned. Transfer of cash by accountable person to another employee is not allowed.

The organization opens new bank account for each new project in both national and foreign currency, as required by the project to be implemented by the organization.

The organization mainly uses bank transfers (cashless payments).

Taking into account working processes, organization directors approve bank transfers through email.

3.2 Long-term Assets

Long-term assets include fixed assets and intangible assets:

Fixed assets – material assets which:

a) at the disposal of the organization and is used for its activities and/or administrative purposes

   and

b) Intended to be used for more than one reporting period

Intangible assets – identifiable, non-material asset without physical form. Such asset is considered as identifiable, when:

a) Is separable, or it can be separated from the organization, sold, transferred, licensed or leased or exchanged individually or linked to the agreement, asset or liability; or
b) Arises from contractual or other legal rights, regardless of whether it is possible to transfer or separate these rights from the organization or other rights and responsibilities.

The organization shall recognize long-term asset when:

1. Organization is expected to receive economic profit using this asset; and

2. It is possible to reliably estimate value of the asset.

An intangible asset created within the organization is recognized as an expense immediately in operation report.

Land and buildings are independent assets, thus the organization records them separately, if such exist.

The organization assesses long-term asset on initial recognition with the prime cost.

Prime cost of long-term assets includes acquisition costs and all expenses directly related to bringing the asset at the place and in condition where it is possible to use it in accordance with the goals set by the management, except the costs associated with borrowed funds.

Acquisition costs includes its purchase price, import and other taxes (except indirect taxes subject to further refund (deduction) – VAT), transportation loading-unloading expenses and other expenditures directly related to its purchase. When calculating acquisition costs, the amount calculated will be reduced by the cost of trade concessions, various types of discounts, and other similar articles. If payment is delayed (subject to further payment) and further payment cost is higher than immediate payment cost, then purchase price indicated in acquisition costs is immediate payment price available for the transaction date. Difference between the further and immediate prices shall be recorded as an interest expense.

When recognizing an asset as a fixed or an intangible asset, the organization considers the principle of substance.

After the initial recognition of a long-term asset, the organization evaluates its price with the prime cost, deducting accumulated depreciation/amortization and accumulated impairment loss.

Spare parts and auxiliary equipment are recognized as fixed assets if it meets the description. In other cases, they are recognized as a stock or directly as a period cost.

The organization groups fixed assets **by context and similarities of economic purpose**.

Accrual of **depreciation/amortization** on the asset starts when the asset is in place and in a condition which is necessary for its operation in accordance with the goals set by the management. Depreciation/amortization accrual on the asset is terminated when recognition of the asset is terminated, or it is fully depreciated. The organization uses a linear method of depreciation for its long-term assets and determines useful service life of each its asset depending on how long the asset is expected to be available for use by the organization. Depreciation amount is recorded as a period cost in operation report. At the end of each reporting period, the organization reviews accounting asset valuations (service life duration, depreciation method) and changes to the accounting evaluation is recorded in operation report prospectively (or during next periods).

Long-term assets received as a charity or a grant increases organization's fund of long-term assets. Long-term assets received in such way are initially recognized with their actual/market price.

Organization terminates recognition of a long-term asset upon its expiration or when it is no more expected to get profit from its usage or exit.

Any income or loss caused by the termination of long-term asset recognition is immediately recorded in operation report. In line with a Civil Code of Georgia and Statute of the organization, alienation of the organization-owned property is possible, if it serves to the operation of the organization, its organizational development, contributes of achieving its goals or serves charity purpose. Based on the organization Statute, alienation of the property owned/used by the organization, as well as transferring to be used by someone else is only possible upon the Board decision, it such action does not contradict its goals and activities, its organizational development, contributes to achieving its goals or serves charity purpose.

3.3 Liabilities

Credit Loans/ Financial Liability

The organization recognizes a financial asset or financial liability only if it becomes a party to the contract of that financial instrument.

I. Before recognizing credit liability, invoices received and related documentation is checked against the validity of the obligations;

II. Only valid operations related to credit liability (supplier invoices, credit avvisos, corrections) are recorded in the accounting records accurately and on relevant accounts;

III. Credit liabilities are controlled for their timely repayment.

By the end of each reporting period, the organization assesses financial liabilities with the cost by the time of their recognition, which:

a) The accrued interest expense from the date of initial recognition of the liability to the reporting date is added to;

b) Amount of base paid and interest accrued from the date of initial recognition of the liability to the reporting date is deducted from.

3.4 Budgeting

To get funding from the donors, budget shall be prepared. Program as well as finance personnel is involved in budget preparation and control, however all budgets (grant proposal, agreement), prior to submitting to donors, is reviewed and approved by the director and financial manager/accountant. Submit a grant proposal/budget to the donor without the approval of the director is unacceptable. No agreement has legal force without the signature of the director and financial manager/accountant. None of the grant expenditures will start without the donor's written consent. The director and financial manager/accountant are responsible for the implementation of the budget and monitoring its compliance. Any changes to the budget proposed by the program shall be prepared together with the financial manager/accountant and get the director's approval. Only after completion of internal processes, the request for the changes is sent to the donor.

The director and financial manager/accountant shall review the budget on monthly basis. However, it is always better to implement projects according to the plan and timelines agreed in advance. Costs shall be approximately equal throughout the whole period of the project implementation. The director is responsible for providing information on the agreed plan, timeline, expenses (overspending, balance) or any other misdemeanor to project and financial staff. Annual budget of the organization is prepared in line with the annex #1, which is an integral part of this guide.

3.5 Grants Receivable and Sub-grants Issue

Receivable grants are recognized in the amount of which it shall be received from the donor. In line with the agreement signed with the donor, grant receivable is recognized as a requirement towards the donor, with the relevant date. Grants receivables are reduced accordingly upon receipt. Amount to be received in a foreign currency are recalculated according to the exchange rate of the National Bank at the end of the year.

Issued subgrants are recognized in the financial (balance) report, as an advance paid by the organization to the sub-grantees. Sub-grants issued when submitting documents to the organization certifying the expenses incurred by the sub-grants and the work performed will be covered by the proportionate amounts of work performed and documentation received in the operation report (profit-loss).

3.6 Salary Payments

Remuneration payable during the employment period is short- and long-term.
Salary payments may include:

1. Salaries and bonuses in accordance with Article 101 of the Tax Code of Georgia;
2. Rewards for long service;
3. Short-term paid leave, sick leave, maternity leave, paid leave for military service;
4. Long-term incapability remuneration (e.g. payment to an employee injured as a result of an accident at work);
5. Non-monetary benefits, e.g. private healthcare service, accident insurance, provision of accommodation or transport, other free or subsidized product, according to Article 101 of the Tax Code).

The organization recognizes any type of remuneration as a period cost. The organization evaluates all liabilities related to the remunerations of the employees based on a reliable estimate of the amount, which is necessary to fulfil existing responsibility by the reporting date. Employee remunerations (including income and pension taxes) is reflected in the "Personnel Salary" column of the **operation report.**

The organization may employ both resident and non-resident physical entity. English or Georgian labor agreement is signed with each employee, separate for each project or united, if the agreement with the donor does not establish otherwise. Salaries are paid upon authorization by the director. Salaries are mainly paid through bank transfer, and in absence of such, salary payment for a non-resident employee can be fulfilled through fast money transfer (Western Union). According to the Tax Code of Georgia, salary of the non-resident physical entity is taxed by the organization at the source of payment at 20%.

3.7 Business Trip

Per diems, within the limit set by the Order 220 of the Minister of Finance, shall be reimbursed tax-free only to employees hired by the organization under the labor agreement and not to a physical entity employed with a service contract.

According to para "a", part 3, Article 101 of the Tax Code of Georgia, income received as a salary does not include:

ბ) Reimbursement of a per diem paid to an employee in accordance with the norm established by the Ministry of Finance (Order 220 of the Minister of Finance on the norms of per diem payment to the employees).

According to Article 21 of the Labor Code of Georgia, a business trip is temporary change of a residential place for the employee, in the interests of the organization. Sending employee to a business trip by the employer is not considered as a major change of the agreement conditions, if the business trip duration does not exceed 45 calendar days per year. Per diem of an employee **does not cover** consulate-related (visa, insurance) service costs. Moreover, it is not considered as a salary income for an employee on trip either. Such expenses are reviewed as an expense related to the operations of the organization and is not a subject to taxes.

In accordance with the Order 220 of the Minister of finance:

- ✓ To perform a job assignment by the order of the employer outside the permanent place of work - during the employee's business trip **within the country**:

a) The norm of daily per diem for business trips is established as 15 GEL, which is calculated according to actual number of days in a business trip including days off and holidays, as well as travel days to and from a business trip. **During the business trips within 30km radius, when it is possible to return to a work or residential place on the same day, only travel expenses shall be reimbursed;**

b) Norms of travel and accommodation expenses are determined according to actual expenditures, **upon submission of payment documentation.**

To perform a job assignment by the order of the employer outside the permanent place of work - during the employee's business trip **outside the country**:

a) Amount of a per diem and accommodation expenses shall be determined in line with Annex №1. It shall be calculated according to the actual number of business trip days, including days off and holidays;

b) Travel cost will be reimbursed according to the travel fees for the specific direction, but no more than the cost for **economy class (or equal)** ticket.

A week prior to a business trip, an order is issued reflecting details of an employee being in the business trip, departure and return period, purpose of a trip. Business trip related costs (daily expenses, accommodation, travel) is transferred after the order is issued, but no later than 2 days prior to the departure date of an employee. Within 10 days after returning from a business trip, an employee shall submit business trip related documents to the accountant and fills in advance report, based on which the amount to be additionally reimbursed to the employee or the amount to be returned by the employer to the accountant is determined.

3.8 Procurement

Procurement must be carried out by the office manager, or the staff member authorized by the director. Project managers must check purchased product and their condition.

1. Product with the value of 1-1 500 Gel shall be bought with simplified procurement procedure.
2. Any purchase between 1 500-10 000 Gel shall be based on a special purchase request form. The form is signed by the manager/coordinator of the department/project which requests the purchase, or the office manager. Financial manager/accountant reviews the form and in case of its compliance with the project budget signs and submits it to the director for final approval. Therefore, purchase request form has three signatures.
3. Purchases above the value of 10 000 Gel can be carried out through escalated tender, determined and approved by members of organization Board.

Signatures

Director: Natalia Tsagareli

Board Chairman: Anton Kelbakiani

Accountant: Enriko Giorgashvili

Accountant: Ketevan Avalishvili