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Administrative Guidelines on the Budget and Accounting System

GCF/B.09/17

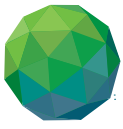
16 February 2015

Meeting of the Board

24-26 March 2015

Songdo, Republic of Korea

Agenda item 23



Recommended action by the Board

It is recommended that the Board:

- (a) Take note of the information presented in document GCF/B.09/17 *Administrative Guidelines on the Budget and Accounting System*; and
- (b) Adopt the draft decision presented in Annex I to this document.

Administrative Guidelines on the Budget and Accounting System

Introduction and background

1. The Board approved the administrative policies of the Fund (decision B.06/03) covering human resources, administrative budget, procurement and asset management, information and communication technology, and audit and internal controls. Policies shall be supplemented by administrative guidelines endorsed by the Board and promulgated by the Executive Director (ED).
2. In addition, in decision B.07/02, the Board has approved to adopt the initial fiduciary principles and standards for the Fund including, the Financial management and accounting (GCF/B.07/11 Annex II 1.1.2).
3. The Board approved the adoption of the International Financial Reporting Standards (IFRS) as the accounting standard for the Fund (decision B.08/18).
4. The Board approved the 2015 administrative budget of the Fund (decision B.08/16).
5. This document sets out in Annex II the Guidelines on the administrative budget and accounting system.
6. Endorsement of the guidelines by the Board will constitute an authorization to the ED for their promulgation.

Annex I: Draft decision of the Board

The Board having reviewed document GCF/B.09/17 *Administrative Guidelines on the Budget and Accounting System*:

- (a) Approves the Guidelines on the administrative budget and accounting system contained in Annex II hereto;
- (b) Notes that the Board retains the right to request revision of these guidelines if warranted; and
- (c) Confirm the Executive Director to promulgate and implement the guidelines.

Annex II: Guidelines on the Administrative Budget and Accounting System

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I. Introduction

1. The objective of these guidelines is to formulate and document the procedures applied by the Secretariat in order to implement policies pertaining to the administrative budget of the Fund to:
 - (a) Ensure that all financial transactions are recorded completely in a timely manner; and
 - (b) Define and document the operating controls, which will be followed by the financial management team.
2. The scope of these guidelines shall apply to:
 - (a) Budget preparation, execution and monitoring activities; and
 - (b) Accounting principles, financial reporting, financial transactions, including payment processing, payroll and other expenditure processing, cash and bank, as well as fixed assets and liabilities.

II. Implementation and compliance

3. The instructions contained in these guidelines are to be read in conjunction with the International Financial Reporting Standards (IFRS); the Administrative Policies of the Fund (GCF/BM-2014/01); the Administrative Guidelines on Procurement (GCF/B.08/31); and the Administrative Guidelines on Internal Control Framework and Internal Audit Standards (GCF/B.09/18).
4. The financial management team along with all divisions of the Secretariat shall be required to ensure implementation of and compliance with these guidelines before processing any financial transactions. The guidelines and procedures detailed in this document shall apply to all financial and accounting operations performed by all staff members of the Fund. All staff members of the Fund shall have a thorough understanding of these and all other related administrative guidelines.

III. Exceptions to financial guidelines

5. Exceptional circumstances may exist which would render it difficult to comply with financial guidelines and procedures. Any exceptions shall be approved by the Chief Financial Officer (CFO)/Director Support Services (DSS) within the framework of the Fund's objectives and approved policies. Reasons for allowing such an exception shall be recorded in writing and placed in the relevant file.

IV. General accounting principles and policies

4.1 Accounting policy

6. The accounting policies used by the Fund are required in order to comply with IFRS (as per decision B.08/18).

4.2 Axioms of Fund accounting

7. IFRS is based on the following major axioms relating to the environment in which transactions take place. These axioms provide the underlying basis for the Fund's accounting, and they are as follows:

8. **Economic and legal entity:** This assumes that an economic activity (financial transaction) can be identified with a particular unit of accountability. The economic and legal entity is the Fund

9. **Monetary unit:** This assumes that money is the common denominator by which economic activity is conducted, and that the monetary unit provides an appropriate basis for measurement and analysis. The unit of account for the Fund is the United States dollar

10. **Periodicity:** This assumes that the activities and, therefore, the financial flows of an entity, can be divided into any chosen time period. The financial statements of the Fund are prepared on the basis of a full calendar year.

11. **Elements of financial statements:** Financial statements group transactions and other events into broad classes according to their economic characteristics, which IFRS terms the "elements of financial statements". The elements that are directly related to the statement of financial position are assets, liabilities and net assets. The elements that are directly related to the statement of activities are income and expenditures.

4.3 Accounting standard

12. International Accounting Standard 1 (IAS 1) is the standard which will be applied in the presentation of all general purpose financial statements prepared and presented in accordance with IFRS.

4.4 Accounting concepts

13. The following key accounting concepts underline the presentation of general purpose financial statements.

14. **Fair presentation and compliance with the International Financial Reporting Standards:** The Fund's financial statements will present, in a faithful and fair manner, the financial position, financial performance and cash flows of the Fund. The appropriate application of IFRS, with additional disclosure where necessary, results in financial statements that achieve a fair presentation.

15. **Neutrality:** To be reliable, the information contained in the financial statements must be neutral, and free from bias. Selection or presentation of information that influences the making of a decision or judgement in order to achieve a predetermined result or outcome must be avoided.

16. **Prudence:** The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, or the probable useful life of plant and equipment. Such uncertainties are recognized by the disclosure of their nature and extent, and by the exercise of prudence in the preparation of financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

17. **Accounting guidelines/procedures:** The Fund will apply accounting policies to ensure that the financial statements, while complying with all the requirements of IFRS, provide information which:
- (a) Represents faithfully the results and financial position of the Fund;
 - (b) Reflects the economic substance of events and transactions;
 - (c) Is free from bias;
 - (d) Is prudent; and
 - (e) Is complete in all material respects
18. **Going concern:** Financial statements shall be prepared on the assumption that the Fund is a going concern and will continue its operations for the foreseeable future. Hence, it is assumed that the Fund has neither the intention nor the need to liquidate or materially curtail the scale of its operations.
19. If management is aware of material uncertainties relating to events or conditions which may cast significant doubt upon the Fund's ability to continue as a going concern, those uncertainties will be disclosed.
20. **Accruals:** The Fund will prepare its financial statements, except for cash flow information, under the accrual basis of accounting.
21. Under the accrual basis of accounting, transactions and events are recognized when they occur (and not when cash or its cash equivalent is received or paid), recorded in the accounting records, and reported in the financial statements of the periods to which they relate.
22. **Consistency of presentation:** The presentation and classification of items in the financial statements will be retained from one period to the next unless a significant change in the nature of the operations of the Fund or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or a change in presentation is required by IFRS.
23. **Offsetting:** Assets and liabilities will not be offset except when offsetting is required or permitted by IFRS.
24. Items of revenue and expense will be offset when and only when:
- (a) Required by IFRS; or
 - (b) Gains, losses and related expenses arising from the same or similar transactions and events are not material.
25. **Comparability:** Users must be able to compare the financial statements of the Fund through time in order to identify trends in its financial position and performance. Therefore, the measurement and display of the financial effect of similar transactions and other events must be carried out in a consistent manner over time.
26. Comparative information will be disclosed in respect of the previous period for all numerical information in the financial statements. Comparative information will be included in the narrative as will descriptive information when it is relevant to an understanding of the current period's financial statements.
27. An important implication of comparability is that users should be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. When the presentation or classification of items in the financial statements is amended, comparative amounts will be reclassified.

28. **Materiality and aggregation:** Each material item will be presented separately in the financial statements. Immaterial amounts will be aggregated with amounts of a similar nature or function and need not be presented separately.

29. **Matching:** The matching principle requires that expenses are “matched” with related revenues in order to report the results accurately during a specified time interval.

V. Property plant and equipment

5.1 General guidelines

30. Property, plant and equipment (PPE) items are also known as “fixed assets”.

31. IAS 16 defines property, plant and equipment as those assets where it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.

32. Items shall be recognized as PPE by the Fund when:

- (a) They are tangible assets that are held and used for more than one financial year;
- (b) The items are generally in the legal ownership of the Fund, but also include leasehold improvements, leased property and equipment, which can be capitalized in accordance with IAS 17. For finance lease, see below; and
- (c) The cost of the asset is above the threshold set-out in the capitalization limit.

5.2 Capitalization limit

33. Any expenditure on PPE above US\$ 2,000 in value shall be capitalized and depreciated/amortized over the estimated useful lives of the items. Any expenditure on PPE below US\$ 2,000 shall be expensed directly.

34. All items of PPE that meet the recognition criteria shall be recorded in the fixed assets register. The following details shall be recorded:

- (a) Date of purchase, cost and description of asset;
- (b) Asset class, useful life, depreciation rate and method;
- (c) Supplier name, warranty, invoice number and serial number; and
- (d) Location of asset and custodian name.

5.3 Valuations

35. **Acquisition cost:** An item of PPE should initially be measured at cost.

36. The cost comprises its purchase price and all expenses attributable to bringing and installing the asset in working condition in its needed location.

37. Property and equipment acquired on credit or by instalment is recorded at its cash purchase price. The difference between credit and cash price, if any, should be considered as financing cost to be amortized over the credit period.

38. PPE that is donated or granted to the Fund should be recognized at a fair value at the date of the donation or grant.

5.4 Depreciation

39. Depreciation is the systematic allocation of the depreciable amount of an item of PPE over its estimated useful life. Depreciation of PPE shall be based on the full acquisition cost of the PPE, net of expected salvage value, as applicable.
40. The Fund follows the straight-line method of depreciation, which should be applied consistently from period to period unless altered circumstances justify a change. Depreciation of a fixed asset commences from the month that the item is put to use.
41. Land and buildings are separable assets and are dealt with separately for accounting purposes even when they are acquired together. Land normally has an unlimited life and therefore does not undergo depreciation. Buildings have a limited useful life and are depreciable assets.

Table 1: Estimated useful lives of assets

Property	Useful life	Plant and equipment	Useful life
Land	No depreciation	Motor vehicles	3–5 years
Buildings	25–60 years	Computer equipment	3–5 years
Leasehold Improvements	In accordance with the duration of the lease	Office equipment and furniture	3– years
Construction in progress	No depreciation	General equipment	5–10 years

5.5 Disposal or retirement of property and equipment

42. An item of PPE should be eliminated from the fixed assets register on disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposal. This can arise in the following situations:
- (a) Sale to third party; and/or
 - (b) Scrapping when an item becomes unusable, obsolete, or damaged beyond economic repair.

5.6 Responsibilities

43. Users of the assets have the responsibility to treat all assets in their custody in a careful manner.
44. The IT team is responsible for managing the security of all IT equipment.
45. CFO/DSS is responsible for overall management of PPE.

5.7 Controls and standard operating procedures

46. Procedures should be in place in order to identify custodial responsibility, and physical security measures, consistent with the value and vulnerability of the asset.
47. There should be periodic physical counts for verification purposes and differences noticed during a physical count shall be investigated. Due approval should be taken before any adjustments/write-offs are made.
48. Titles/ownership documents (property and motor vehicles) should be kept in a secure place.

49. Assets are properly safeguarded against physical damage, in accordance with insurance policies. Levels of cover and insured risks should be regularly reviewed.

VI. Leases

6.1 Nature and definition

50. IAS 17, paragraph 8, sets out guidelines for determining whether a lease is a finance lease or an operating lease. In all situations it is the substance of the transaction rather than the form of the contract which is important.

51. A lease is an agreement whereby the lessor conveys to the lessee (the Fund), in return for a payment or a series of payments, the right to use an asset for an agreed period of time. Leases are classified in the following categories:

- (a) Finance lease: A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred; and/or
- (b) Operating lease: A lease other than a finance lease.

6.2 Recognition principles

6.2.1 Finance lease

52. The following situations would normally lead to a lease being classified as a finance lease:

- (a) The lease transfers ownership of the asset to the Fund at the end of the lease term;
- (b) The Fund has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date that the option becomes exercisable, such that it is reasonably certain that the option will be exercised;
- (c) The lease term is for the major part of the economic life of the asset even if the title is not transferred;
- (d) At the inception of the lease, the present value of the minimum lease payments amounts to substantially all of the fair value of the asset; or
- (e) The leased assets are of a specialized nature such that only the Fund can use them without major modifications being made.

53. Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability.

54. A finance lease gives rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. The depreciation policy should be consistent with the Fund's normal rates. If there is no certainty that the Fund will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

6.2.2 Operating lease

55. Lease payments under an operating lease are a normal expense and flow through to the statement of activity.

VII. Banks and cash for execution of the administrative budget of the Fund

7.1 General guidelines

56. The rule is to ensure that accounting and reporting for banks are in accordance with IFRS requirements, and that there are adequate controls over the management of bank accounts.

57. Banks comprises local or foreign currency deposits in banks which can be added to or withdrawn without limitation and are immediately available for use in current operations.

58. Cash here refers to petty cash balances and transactions.

7.2 Valuation

59. Banks and cash equivalents in currencies other than the United States dollar are recorded at the market rates in effect at the time of transaction and are restated to the equivalent United States dollar amount at prevailing market rates as at the date of the statement of financial position.

7.3 Controls and standard operating procedures

A. Account opening and operations: Bank accounts are only opened with the approval of the Executive Director. Banks must be rated by a recognized international or national agency (e.g. Standard & Poor's, Moody's, Fitch). The justification for opening a new account shall be documented.

60. All bank accounts shall be in the name of the Fund.

Wherever possible bank accounts will have electronic banking facilities available for authorized users.

B. Bank receipts: All monies received shall be in the name of the Fund.

C. Bank payments: Bank transfers shall be prepared based on the determination that the transaction is valid and is in accordance with the relevant rules. The bank transfer requests should be supported by adequate documentation.

61. A minimum of two authorized signatories are required to countersign the transactions as approved by the Executive Director.

D. Bank reconciliation: Bank reconciliations statements shall be prepared on a monthly basis for all bank accounts.

62. Adjustments (if any) made to the books in order to reconcile the bank account balances with the ledger must be approved by a relevant person other than the adjuster.

63. Authorized personnel preparing and reviewing the bank reconciliation shall sign and date the reconciliation indicating the date:

(a) The reconciliation was completed; and

(b) The reconciliation was reviewed.

64. All reconciling items should be identified and included in the bank reconciliation. Reconciling items shall include:

(a) Items that would clear over a period of time;

- (b) Items requiring adjustments to clear them, either by the bank or with an adjusting voucher in the financial records; and
 - (c) Items which require further information before adjustments can be made.
65. Any non-reconciling items shall be addressed accordingly in coordination with external and internal parties. Bank reconciliations shall be filed within the financial management team and made available to internal/external auditors, upon request.
66. Supporting documentation for the bank account balance, general ledger account balance and significant reconciling items shall be attached to the reconciliation.
67. The financial management team's review shall focus on unusual items, and shall agree to the details in the bank statement and the corresponding general ledger before granting approval.
- E. Closing bank accounts:** Bank accounts are only closed with the approval of the Executive Director.

7.4 Petty cash

68. Petty cash shall be maintained to make small cash disbursements and shall be kept in a locked safe/storage cabinet.
69. The petty cash shall be maintained on an imprest basis.
70. There shall be a custodian of the petty cash fund. The custodian shall be responsible for the actual disbursement and safe-keeping of the cash. Access to the petty cash fund must be restricted to the custodian only.
71. No payment shall be split to bypass the petty cash limit.
72. The petty cash fund shall be reconciled regularly. Any discrepancy in the amount held shall be notified to the CFO/DSS immediately.
73. The petty cash fund shall only be used for small cash disbursements for purchases where bank transfer would not be practical or possible (for example small purchases, taxi fares, etc.).

VIII. Expenses, payables and accruals for execution of the administrative budget of the Fund

8.1 General guidelines

74. Expenses are decreases in economic benefits during the accounting period in the form of outflows, depletion of assets or incurrence of liabilities that result in decreases in net assets.
75. Expenses are outflows or other activities using up assets or incurrence of liabilities (or a combination of both) from delivering goods, rendering services, or carrying out other activities that constitute the organization's ongoing major or central activities.

8.2 Natural classification

76. The operating expenses can be classified within the following groups:
- (a) **Personnel costs:** IAS 19 (Revised) - Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees or for

the termination of employment. This includes the salaries, benefits and all the associated cost of regular employees;

- (b) **Travel:** Domestic and international travel expenses incurred by the Fund;
- (c) **Depreciation** includes the depreciation charge on PPE, the amortization charge on intangible assets and any impairments of PPE and/or intangible assets;
- (d) **Supplies and services** include, but are not limited to: non-consumable items which are not capitalized, supplies for the office/facility, items not included in personnel costs such as cost of casual labour, trainees and other professional services. This category also includes other general expenses which do not strictly fall into the definition of supplies or services but could be a combination of both. These include items such as in-service training, rentals, repairs and maintenance, utilities, telecommunications, vehicles operational costs, and general insurances; and
- (e) **Financial costs** include interest charges, exchange rate gains/losses and any financial charges relating to the Fund's investment activities.

8.3 Recognition

77. An expense is recognized immediately when expenditure produces no future benefit or when future economic benefits cease to qualify for recognition as assets in the statement of financial position.

78. When economic benefits are expected to arise over several accounting periods and the association with revenue can only be broadly or indirectly determined, expenses are recognized on the basis of systematic and rational allocation procedures (e.g. depreciation and amortization).

79. At the end of a reporting period, an accrual should be made for any expenses for which an invoice or a demand for payment has not been received, if those expenses have been incurred before the reporting date. The amount of the accruals should follow the same principles for recognition indicated above.

80. A prepayment should be recognized for any costs not yet incurred but for which payment has been made.

8.4 Controls and standard operating procedures

81. All expense items must be approved in accordance with the delegation of authority.

82. Supporting documentation will be retained in accordance with the Fund's retention policy, which specifies a five-year period.

83. CFO/DSS is responsible for ensuring that all processes pertaining to expenses provide adequate internal control.

8.5 Expenses booking/accrual process

84. An obligation arises when the Fund enters into a formal contract, agreement, purchase order or other form of undertaking. The expenses should be accrued against an obligation as per the IFRS guidelines.

85. All expenses/accruals shall have the budget code against which the expense is being incurred, and shall be approved by the budget holders. The availability of a corresponding budget needs to be verified in advance.

86. For expenses that are made for more than one division, the cost should be shared by the relevant divisions on a reasonable basis (e.g. training cost can be shared based on the number of participants from each division).

8.6 Disbursement process

87. The disbursement process is the last action in the settlement of an expense. The invoice shall be approved by the line manager/budget holder. Upon approval, the invoice should be submitted to the financial management team for further checking and processing of the payments.

88. All disbursements shall be made by bank transfer except for the payment of some daily subsistence allowance and disbursements authorized as petty cash.

8.7 Expense claims

89. All claims shall be submitted to the financial management team using a travel expenses claim or a petty cash voucher, as applicable, along with relevant supporting documentation.

90. All travel claims shall be submitted with supporting documents within 15 working days of completion of travel.

8.8 Payroll

91. Staff benefit claims shall be submitted to the Human Resources Unit for approval, after which the claims should be submitted to the financial management team for review and processing of the payment.

92. The Human Resources Unit shall provide and update staff payroll data by the fifteenth day of each month.

93. Salaries of staff will be credited by electronic transfer to the bank account designated by the staff member.

94. The financial management team shall ensure timely and accurate payment of staff compensation. Payments of salaries shall be made no later than the twenty-fifth of the current month. In cases where the payment date falls on the weekend or a public holiday, the salaries shall be paid on the last working day before the official pay day.

8.9 Financial recording and closing procedures

95. **Financial ledger and records:** The Fund will select and implement accounting software that provides the needed functionality regarding recording, reporting and internal controls.

96. The financial management team shall design and develop a coding structure that provides the framework for all accounting and reporting needs.

97. The financial transactions shall be kept and maintained in accordance with IFRS.

8.10 Closing activities

98. The following section defines the key closing activities that are to be performed before the end of each reporting period – month, quarter or year.

99. **Expense provisions and scheduling:** All expenses, major accruals and provisions shall be recognized.

100. The financial management team shall reconcile balances with the corresponding asset accounts in the ledger and compute variance analysis. The Financial Unit should also prepare at least the following schedules on a monthly basis:

- (a) Creditors ageing schedule and analysis;
- (b) Bank reconciliation statement for all active bank accounts;
- (c) Petty cash reconciliation for petty cash; and
- (d) Schedule for accruals and prepayments.

101. The financial management team shall complete the following activities for the review of the accounts and adjustments made thereto:

- (a) Ensure all reconciling items are cleared and significant trend movements are justifiable; and
- (b) Review identified period-end adjustments, approve all manual journal entries to be posted, and close the period in the ledger.

IX. Presentation of financial statements

102. A complete set of financial statements includes:

- (a) Statement of financial position;
- (b) Statement of financial performance;
- (c) Statement of changes in net assets/equity;
- (d) Cash flow statement; and
- (e) Notes, comprising a summary of significant accounting policies and other explanatory notes.

103. The Fund shall present current and non-current assets and current and non-current liabilities as separate classifications on the face of the statement of financial position.

104. The notes to the financial statements shall:

- (a) Present information about the basis of preparation of the financial statements as well as the specific accounting policies selected and applied for significant transactions and other events;
- (b) Disclose the information required by IFRS that is not presented elsewhere in the financial statements; and
- (c) Provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

105. Notes to the financial statements shall be presented in a systematic manner.

X. Annual administrative budget

10.1 Budget objectives

106. The main objectives of the annual administrative budget of the Fund are:
- (a) To establish financial parameters within which the administrative operations of the Fund should be conducted;
 - (b) To empower individual budget holders so that they have the responsibility and authority to make sound business decisions, and to ensure the efficient and effective use of resources;
 - (c) To provide a management tool, where actual expenditures can be monitored against budgets regularly, and remedial action can be taken where needed; and
 - (d) To develop a strong budget culture within the organization. Budget management can be a key tool for the evaluation of resources spent vis-a-vis a division's contribution towards achieving the overall objectives of the Fund.

10.2 Budgeting process

107. The framework below captures the key stages of the Fund's administrative budgeting process. The budget preparation will be the responsibility of CFO/DSS, with active engagement of the other divisions.

108. **Step 1: Issue budget guidelines and template:** An annual administrative budget brief and templates will be issued by CFO/DSS to each operating division/office. CFO/DSS shall also issue a budget preparation memo, which provides an outline of the budget preparation process, the responsibilities of division directors and the financial management team, time schedules, and deadlines for budget preparation.

109. **Step 2: Budget preparation:** Each division/office head is responsible for preparing and submitting his or her budget to CFO/DSS following a bottom-up budget preparation process within a given budgetary ceiling. The ceiling will be determined based on realistic projections of resource availability for the budget period.

110. **Step 3: Budget consolidation and approval:** CFO/DSS will be responsible for consolidating all budget submissions from each division in the form of a budget paper for review by the senior management team. CFO/DSS will present the consolidated budget to the Board for approval at its last meeting preceding the budget year.

111. Once the budget is approved, the financial management team will upload the approved budget into the financial system and administer, monitor and report on it.

112. **Step 4: Budget implementation:** As part of its administering, monitoring and reporting role, the financial management team, shall ensure that expenditures incurred by each division remain within the level of the approved budget and that they serve the purposes for which they were intended. The Executive Director can reallocate resources in such a way that the total expenditure does not exceed the Board approved annual budget.

10.3 Budget framework

113. The administrative budget allocation follows the organizational structure as indicated below:

- (a) The Board;
- (b) The Secretariat (including relevant divisions/offices); and
- (c) The (Interim) Trustee.

114. Each significant activity within the above components will have its own budget and designated budget holder(s). The list of activities and reporting format may change from time to time to meet the business needs.

10.4 Responsibilities

115. The Board of the Fund has final responsibility for approval of the annual administrative budget.

116. The Board approves the administrative budget of the Fund, and reviews reports on its executions and related audit reports (GCF/B.07.07, paragraph 31 (j)).

117. Division/Office heads are responsible and accountable for managing the budgets handled by them.

10.5 Budget monitoring and variations

118. The budget shall be monitored on a monthly basis for expenses. The financial management team shall prepare variance statements showing the actual expenditure and shall forward the report to the divisions/offices for adequate monitoring.

119. The variance statements and reports shall contain the following:

- (a) The approved budget;
- (b) Actual performance in comparison to the budget; and
- (c) Variance (year to date).

XI. Glossary and definitions

- (a) **“Accounting policies”** - the specific principles, bases, conventions, rules and practices adopted by the Fund in preparing and presenting financial statements;
- (b) **“Allocation”** – the amount of funds allocated for administrative expenditure in a particular time period, generally a fiscal year;
- (c) **“Appropriations”** - the aggregate of the expenditure authorizations approved by the Board for the regular administrative budget of the Fund for a financial period against which expenditures may be incurred for purposes approved by the Board;
- (d) **“Budget”** – the annual administrative budget approved by the Board indicating estimated resources and expenditures for a financial period;
- (e) **“Cash and cash equivalents”** - cash includes cash in hand and in the bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value;
- (f) **“Cash flow statement”** - reports the Fund’s cash activities. It reports cash receipts and payments, and the net change resulting from operating activities;

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- (g) **“Estimated useful lives”** - the time period in which a fixed asset is expected to provide economic benefit to the Fund at the end of which it is expected that it will be retired from use;
 - (h) **“Fair value”** - the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction;
 - (i) **“Financial management team”** – the team responsible for financial accounting and reporting, treasury operations, budget compliance, monitoring and planning, and asset-liability management;
 - (j) **“Financial records”** - the manual or computerized records of assets and liabilities, monetary transactions, as well as supporting documents (such as contracts, invoices and vouchers), which the Fund is required to maintain in its records;
 - (k) **“Financial statements”** – a formal record of the financial activities of the Fund that is used to describe its financial position and financial performance; they include the income and expenditure statement, balance sheet, cash flow statement and statement of equity as well as notes to the statements;
 - (l) **“Furniture and fixtures”** - immovable items affixed to a real property, such as raised floors, carpets, etc., and movable item such as tables, chairs, desks, filing cabinets, etc.;
 - (m) **“General Fund”** - the pooled account established for the purpose of managing the Fund’s administrative costs and core activities;
 - (n) **“General ledger”** - contains all the accounts for recording transactions relating to the Fund’s assets, liabilities, equity, revenue and expenses;
 - (o) **“IT equipment”** - associated equipment employed to collect, process, and present information for coding/programming processes, data communications, data conversions, storage and retrieval, system analysis and system control;
 - (p) **“Liabilities”** - all present commitments of the Fund arising from past events, the settlement of which is expected to result in an outflow of resources from the Fund, embodying economic benefits or service potential;
 - (q) **“Notes to the financial statements”** - explains the items presented in the main body of the financial statements. They are explanatory notes on items in the financial statements and on accounting policies used;
 - (r) **“Office equipment”** - consumables and non-consumables that are regularly used in the offices of the Secretariat. Non-consumables include computer equipment, photocopiers, printers, fax machines, telephone equipment, etc., whereas consumables include paper, paper clips, Post-it notes, staples, etc.; and
 - (s) **“Payables”** - represent the current liability, the monetary value of which an entity owes to contractors for goods or services purchased on credit.
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