



Baltic Initiative on European Reform

FINANCIAL MANAGEMENT POLICY

Effective from November 22, 2023

1. Purpose

The Financial Management Policy of Baltic Initiative on European Reform has been developed to ensure transparency in all organizational activities. It is designed to uphold financial management standards, facilitating effective financial governance within the organization.

The Financial Policy encompasses the accounting system, budget, financial reporting, payments, annual financial statements, and tax policy. It defines a set of procedures for financial administration and for the organization's fiscal accountability.

2. Focal Point

The financial situation of Baltic Initiative on European Reform will be reviewed monthly, with a primary focus on the budget, receipts, and expenditures. The Executive Director and Deputy Director/Event Manager (and before they are hired, the Board) shall be responsible for ensuring that financial control measures are in place. These two positions have joint responsibility for addressing the following financial issues:

- **Payroll Management:** Oversee payroll processes to ensure accurate and timely payment to employees and partners in cooperation with external (outsourced) accountant.
- **Office & Administration Management:** Efficiently manage financial aspects related to office operations and administration.
- **Budgets and Management Reporting:** Develop and monitor budgets, providing regular management reports for informed decision-making.
- **Cash Flow Management Processes:** Implement effective processes to manage and monitor cash flow to meet operational needs.
- **Expense Recording and Reconciliation:** In cooperation with external (outsourced) accountant, manage processes to record and reconcile expenses, providing regular and accurate monthly reports to the Board, the State Revenue Office and the donors.
- **Budget Compliance:** In cooperation with external (outsourced) accountant, ensure expenditures remain within the approved budget limits.
- **Purposeful Expenditures:** In cooperation with external (outsourced) accountant, verify that expenditures align with the purposes set out in the budget.
- **Financial Documentation:** Collect, organize, and file financial documentation, including quotations, invoices, and receipts in an orderly manner.

In the event of organizational growth, the option exists to appoint a dedicated

financial manager to assume the responsibilities associated with Procurement and Contracting Management, thereby enhancing the efficiency and specialization of these critical functions.

Internal accounting control comprises a series of procedures designed to promote and protect sound management practices, both general and financial. Initially, internal accounting control will be exercised by Board members in cooperation with external (outsourced) accountant. From the moment when they are hired, Executive Director and Deputy Director shall bear the responsibility for overseeing the regular implementation of policies and procedures. Given the intricate nature of requirements associated with funding from specific donors, the respective Project Manager of each project will be entrusted with reviewing the donor's specific regulations, requirements, and compliance factors.

3. Effective Date and Applicability

This Financial Policy is effective as of 22 November 2023, providing detailed instructions within the context of finance and administration.

4. The Accounting System

A practical accounting system of Baltic Initiative on European Reform consists of the following:

4.1. The funding agreements

The funding agreement between each donor and Baltic Initiative on European Reform is a comprehensive document that outlines various critical aspects of the project. It should include the following key components:

1. **Activities to Achieve Deliverables:** Clearly define the activities that the funding will support, detailing how they contribute to achieving project deliverables.
2. **Funding of the Project:** Specify the financial commitment from the donor, including the total amount, payment schedule, and any conditions or restrictions on fund usage.
3. **Reporting on Activities:** Detail the reporting requirements, including:
 - **Narrative Report:** Provide a narrative describing the progress, challenges, and achievements in line with project goals.
 - **Financial Report:** Present a detailed account of how the funds have been utilized, adhering to standard financial reporting practices.
 - **Periods of Reporting:** Clearly outline the frequency and timing of both narrative and financial reports.
4. **Management of Funding and Procurement of Goods:** Define procedures for managing the allocated funds, including the disbursement process and procurement guidelines for goods and services.

- 5. Budget Stipulations:** Specify any stipulations in the budget regarding how the funding is to be applied. This ensures alignment with the intended use of funds and prevents misallocation.

4.2. The Budget

The budget serves as a comprehensive financial framework, delineating all planned activities categorized by type. Aligned with the stipulations outlined in the agreement, each line item in the budget specifies the costs associated with a particular activity. For instance, costs may include the number of events, attendees, venue rental expenses, and consultant fees.

Traveling costs and per diems are accounted separately or linked to specific activities. The budget outlines applicable fees per kilometer and per diem rates. Provision for administrative costs encompasses various elements such as bookkeeping fees, audit fees, telephone costs, rental, stationery, and other office-related expenses.

Unless stated otherwise by the respective donor, Baltic Initiative on European Reform adheres to the per diem rates stipulated in accordance with the Latvian Cabinet regulations No. 969, titled 'Procedures for Reimbursement of Expenses Relating to Official Travels.' The document can be referenced at <https://likumi.lv/ta/en/en/id/220013> for detailed information.

Office costs may be further subdivided into specific categories, or alternatively, provided as a lump sum to cover overall overhead costs for the entire project. If divided into specific costs, actual expenses are claimed monthly as they occur, following specified guidelines. In the case of a lump sum, the total overhead provision may be transferred to a dedicated account, from which total running costs are paid on a monthly basis.

If administrative overheads are stipulated by a funding agreement, Baltic Initiative on European Reform can transfer overhead funds to a designated account, such as 'own funds,' consolidating overhead contributions from various projects. During the transfer of overhead costs to the 'own funds' account, the sum is recorded as a single expense in the project's records for that month.

The 'own funds' account serves as a centralized pool, enabling the payment of organizational running costs that are not project specific. Additionally, remaining funds in this account may be utilized to bridge periods when projects have concluded, and new projects have not yet commenced. This flexibility allows Baltic Initiative on European Reform to meet ongoing expenses such as rent, telephone, and insurance during transitional phases between projects.

4.3. Bank Account (s)

The organization maintains its account with Luminor Bank AS Latvian branch, holding the Legal Entity Identifier (LEI) 213800JD2L89GGG7LF07, and the FATCA Global Intermediary Identification Number (GIIN) QQEYV1.00006.BR.428. The Luminor SWIFT code for transactions is RIKOLV2X.

- **Electronic Transfers:** The transfer request is signed by a designated signatory, with the Executive Director serving as the primary signatory. In

the absence of the Executive Director, the Deputy Director is authorized to approve electronic transfers. The signatory who approves the transaction also signs the transfer documentation.

- **Project-Specific Sub-Accounts:** If requested by donor, a dedicated sub-account will be established to exclusively manage the donor's approved budget and related activities.
- **Bank Reconciliations:** Deputy Director is responsible for conducting monthly bank reconciliations, and the reconciliations are then approved by the Executive Director. This two-step verification ensures accuracy and transparency in financial transactions.

4.4. Petty Cash

To maintain financial transparency, Baltic Initiative on European Reform will, whenever possible, avoid working with petty cash. However, recognizing that specific needs may arise, the following principles will be observed:

- **Control and Responsibility:** The Deputy Director, unless otherwise stated within a project, will have control over cash funds, maintain sole access to the cash, and assume responsibility for reconciling petty cash vouchers and remaining cash funds. The handler of petty cash is responsible for reconciliation and is liable for any cash shortages. The key to the cash box remains with the person handling petty cash at all times.
- **Safe Storage:** Cash is stored in a secure, lockable cupboard, or a safe.
- **Transaction Completion:** The transaction is considered finalized when proof of purchase (invoice or till slip) is submitted to the Deputy Director of petty cash, and any surplus cash has been returned.
- **Documentation:** The final amount paid, and the funds returned to petty cash are recorded on the petty cash request form.

5. Fixed Assets

In the case of general purchases, including stationery, refreshments, fuel, and cleaning materials, etc., the Baltic Initiative on European Reform follows a systematic procedure:

- **Purchase Order:** A purchase order is completed before the item is purchased. This document outlines the specifics of the intended purchase and explicitly mentions the respective project for accurate allocation and tracking.
- **Goods Receipt Confirmation:** The delivery note, confirming the receipt of goods, is signed by the designated NGO Baltic Initiative on European Reform staff member receiving the goods. This serves as acknowledgment of the successful delivery.
- **Invoice Approval and Payment Request:** The invoice is then submitted for approval by both the Executive Director and the respective Project Manager for payment. The approved invoice is signed by the approving

parties. The Project Manager also indicates the relevant budget line item for accurate financial tracking.

- **Payment Process:** Payments are made through secure methods such as bank or electronic transfers, ensuring transparency and financial accountability.

6. Recording of Project Activities

Financial Responsibilities: The Deputy Director assumes responsibility for bookkeeping, ensuring that all financial transactions of the NGO Baltic Initiative on European Reform adhere to acceptable accounting practices in the Republic of Latvia. Activities are executed as agreed upon in the donor agreement, and meticulous records, as well as proof per activity, are diligently maintained.

Reporting Process: Reporting is conducted in two main categories:

A. Narrative Reporting on Activities: The Project Manager provides a comprehensive summary of each activity. This includes documentation such as:

- Attendance register signed by all participants.
- Details like date, place, venue, and subject of the event, along with the group addressed (recorded on the attendance register).
- Evaluation forms completed by participants at the event's closure.
- Anonymous participant feedback on the presentation and event content (included in the evaluation document).
- The narrative report also covers outcomes, challenges, and measurable results achieved.

B. Financial Reporting on Activities: A detailed financial report is prepared for each activity, summarizing all costs incurred. This includes:

- Venue costs for premise rental.
- External experts' fees, encompassing researchers, presenters, etc.
- Traveling expenses, including tickets and fuel per kilometer fee for external experts or NGO staff members, if the project takes place outside Riga.
- Presentation materials and stationery used during the project.
- Refreshments consumed during public events within the project.
- Daily allowances (per diems) for periods of absence from home/office.

It is emphasized that when planning an activity, expenses must align with the approved budget.

7. Payments

Electronic Payments by Internet Banking

Payments made electronically via internet banking follow a structured procedure:

- **Authorization:** The payment of an invoice is authorized through the signatures of the Project Manager and the Executive Director, accompanied by an indication of the budget line item on the invoice.
- **Invoice Details:** The Project Manager includes the project number and budget line on the respective invoice.

Cash Payments

For payments made in cash, the procedure is as follows:

- **Recording:** Each cash payment is meticulously recorded on a budget allocation form.
- **Cash Requisition:** The Deputy Director is responsible for completing a cash requisition, specifying the amount from the designated budget line.
- **Issuing Evidence of Transaction:** The recipient of the cash is obliged to issue, where possible, a fiscal bill or a receipt as evidence that the cash transaction is completed.
- **Completion of Purchase:** After the purchase has been made, the proof of payment (invoice) and the remaining cash funds are returned to the Deputy Director.
- **Recording Actual Costs:** The actual costs are recorded, and the budget allocation form is signed by the Deputy Director, confirming the conclusion of the transaction.
- **Attachment of Proof of Payment:** The proof of payment (invoice) is attached to the budget allocation form for documentation and auditing purposes.

7.1. Bank transactions – cash book

Bank Transactions Recording Procedure:

Bank transactions for Baltic Initiative on European Reform consist of electronic banking transactions, debit orders, and bank charges. The recording process follows a systematic schedule that includes:

- **Opening Balance:** The opening balance at the beginning of the month serves as the starting point for the accounting period.
- **Electronic Banking Transactions:** All e-banking transactions are listed in chronological order, detailing the nature and specifics of each transaction.
- **Debit Orders:** Debit orders paid by the bank are recorded, specifying the amounts and beneficiaries.
- **Bank Charges:** Bank charges incurred during the month are documented, including a breakdown of individual charges.
- **Closing Balance:** The schedule concludes with the balance at the end of the month, providing a comprehensive overview of the financial status.

7.2. Payment for Goods, Works, and Services, and Petty Cash

Payment for Goods, Works, and Services, and Petty Cash Procedures:

- **Official Purchase Orders:** All procurement orders for goods, works, and services must be initiated on official Purchase Orders, treating them as accountable documents. Payments are only authorized for goods and services accompanied by invoices attached to authorized Purchase Orders and a properly authorized payment voucher.
- **Preferred Payment Method:** Whenever possible, payments should be made through bank transfers. No checks should be signed before being written, and all authorizing documents must be attached for verification.
- **Cash Payments:** Payments will only be made against valid invoices. For all cash payments, payees must sign a petty cash voucher.
- **Petty Cash Handling:** Applications for petty cash, must be submitted on appropriate forms, certified by the Deputy Director, and approved by the Executive Director or, in their absence, the Deputy. Petty cash should only be provided to employees and must be accounted for within seven days of return (if for travel) or completion of the assigned task. No new petty cash will be given before the previous one has been accounted for.
- **Advance Payments:** No advance payments shall be given for the supply of goods or services unless explicitly provided for in the contract.
- **Per Diem Rates:** While on official duty outside the NGO Baltic Initiative on European Reform's area of jurisdiction, employees and Board Members are allowed per diem at rates in accordance with Latvian Cabinet regulations No. 969, titled 'Procedures for Reimbursement of Expenses Relating to Official Travels.' Detailed information can be referenced here: <https://likumi.lv/ta/en/en/id/220013>.
- **Per Diem Inclusions:** The per diem rate will include hotel accommodation and food. For accounting purposes, receipts will not be required, but there must be evidence of the night(s)/day(s) stayed out on duty submitted through the Travel Duty Request form to the Executive Director before the duty travel.
- **Petty Cash Management:** No petty cash transaction should remain incomplete at the end of each month. The closing balance at the end of the month must be reconciled with the cash available. In the event of any shortfall, the handler of the petty cash is responsible for refunding the deficit to the petty cash from their own pocket.

8. Monthly summaries of expenses

Baltic Initiative on European Reform uses a detailed expense tracking schedule to meticulously record all expenditures for each budget line item on a monthly basis. This comprehensive schedule includes columns specifying the budget as per the agreement and highlighting differences between actual costs to date and the

budget. Variances are clearly indicated as either under budget or over budget. This instrument plays a pivotal role in enabling the organization to effectively monitor and assess the progress of spending on a funding agreement, ensuring transparency and control over financial resources. Additionally, the schedule serves as a valuable tool for making informed decisions and adjustments to ensure alignment with the agreed-upon budgetary framework.

9. Audited Annual Financial Statements (External Audit)

The (external) Accountant is required to finalize the organization's accounting books within two months of the conclusion of each financial year and promptly submit them to the designated external auditor for the preparation of an audit report. The External Auditor, in turn, is obligated to furnish the Board Members with the audit report within three months. To facilitate the efficient completion of the audit report, the Accountant, Deputy Director, and Executive Director must promptly provide the External Auditor with all necessary information and documents. This collaborative effort ensures the timely completion of the audit report. Furthermore, the organization prioritizes transparency by publishing a copy of the audit report on its official website (<https://www.balticinitiative.eu>) under the "About Us" section. This practice aims to make pertinent financial information accessible to the public, reinforcing the organization's commitment to transparency and accountability.

10. Reporting to a Donor

The reporting intervals between the donor and the organization are determined by the agreement in place. These reports, comprising both a narrative and a financial component, adhere to the specifications outlined in the appendices and are tailored to meet the donor's requirements. The narrative report provides a detailed account of all completed activities during the reporting period, while the financial report meticulously lists all expenses incurred progressively throughout the agreement period. In instances where certain activities may prove challenging to execute as planned or are not as effective as anticipated, adjustments for improved results may be proposed. However, any changes to the project's execution require prior consent from the donor. This includes adjustments to budget line items, which are discussed and clarified with the donor before any modifications are made. Only upon obtaining the written consent of the donor does Baltic Initiative on European Reform proceed to implement adjustments to the program. This stringent process ensures transparency, accountability, and alignment with the donor's expectations.

11. Staff Administration

11.1. Salary payments

Salaries within Baltic Initiative on European Reform are scheduled for payment in Euros before the conclusion of each completed calendar month. The deduction of taxes aligns with legal provisions and the applicable laws of the Republic of Latvia. These salaries are then transferred to the respective staff members' bank accounts as specified in the agreement with each staff member. The organization assumes responsibility for the payment of all applicable taxes in accordance with the laws of the Republic of Latvia, ensuring compliance and adherence to legal

obligations.

11.2. Experts and Consultants

When external experts or consultants are engaged to fulfil specific activities related to an agreement, the NGO Baltic Initiative on European Reform establishes an honoraria agreement with the consultant. This agreement includes the following key details:

- Honorarium payable to the consultant.
- Consultant's address.
- Consultant's profession.
- Donor and project for which the honorarium is granted.
- Period within which the task is to be completed.
- Amount due to the consultant.
- Budget line item.
- Activity description outlining the work to be performed by the consultant.

The honoraria agreement is a formal document signed by both a representative of Baltic Initiative on European Reform and the consultant. The date of agreement signing is recorded, ensuring clarity and documentation of the terms agreed upon between the parties involved. This process establishes a transparent and legally binding framework for engaging external consultants and compensating them for their services.