

NTNC Fiduciary Procedures to Ensure Appropriate Controls on the Execution of Community Managed Projects

Fiduciary Procedures for Effective Community-based Projects



National Trust for Nature Conservation

Khumaltar, Lalitpur

2019

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I. Introduction

NTNC has introduced an overall financial control mechanism, as part of this mechanism, specific procedures have been developed for the execution of community managed projects. NTNC provides support to communities for biodiversity conservation, facilitates social and infrastructure services, organizes economic activity and resource management, empowers vulnerable and marginalized people, improves governance, and enhances livelihoods of the poorest. NTNC interventions are relevant across many sectors.

The procedures outlined have been developed for use when NTNC is implementing community management projects and has delegated financial responsibility to a third-party (i.e. community group, community-based organizations (CBOs), local government agency etc). NTNC has developed these specific set of procedures to address (i) the smaller amounts of funds channeled to the local-level, (ii) the lower-capacity local actors have with regards to fiduciary standards, and (iii) the need to build the fiduciary capability of local actors.

1. NTNC Fiduciary Challenges

Fiduciary management in NTNC projects presents special challenges because:

- NTNC embraces a range of projects, methodologies, and rules, and NTNC projects often have a multiplicity of actors, including government agencies and affiliated units, CBOs, the private sector, and communities themselves.
- Communities and projects are scattered, frequently in remote locations with poor communications, no access to banking facilities and low literacy levels.
- Local capacity on fiduciary issues is often limited and accessing skilled financial professionals can be difficult.
- Donors policies and procedures are typically constructed to respond to larger-scale initiatives than those undertaken at the community level. NTNC project procedures thus need to be tailored to project-specific situations while consistent with donor procedures.

2. NTNC Fiduciary Principles

Although the high degree of variation among NTNC projects precludes, universally applicable rules and procedures, some general principles and working procedures apply:

- Donor rules and guidelines apply to NTNC projects in the same way that they do for any other project; however, their application has to be scaled to the project and the community's capacity.
- The objective of Donor or Government guidelines for procurement are efficiency and cost-effectiveness, quality of goods and services, transparency, and competition among qualified suppliers.
- NTNC projects shall take local culture, norms, and capacity into account, and procedures shall be kept simple, with a high degree of transparency and accountability, and with many of the decision making and management responsibilities delegated to communities.
- To achieve project ownership and sustainability, communities must be involved in preparing and implementing projects.
- NTNC aims to empower beneficiary communities, including in the selection, design, implementation, and fiduciary control of projects.
- Horizontal and downward accountability are essential features in NTNC projects.

3. Purpose of these procedures

These procedures clarify rather than supersede prevailing Government or Donor or NTNC rules and guidelines. The procedures focus on issues related to NTNC project activities at the community level, where the community, or some agency acting on its behalf, undertakes fiduciary responsibilities (third party execution). It is intended to help meet donor, government, or NTNC fiduciary requirements while building local management capabilities.

II. Framework for Fiduciary Management in NTNC Projects

4. NTNC Policy

- Government, donor, or NTNC policies regarding financial management, procurement, and disbursement apply to NTNC projects.
- Government or donor policies regarding financial management and disbursement require that the project implementing entities maintain financial management systems—including accounting, financial reporting, and auditing systems—adequate to ensure that they can provide the accurate and timely information regarding project resources and expenditures.

5. Principles and Aims

Fiduciary management in NTNC is guided by the principles of simplicity, efficiency, accountability, transparency, sustainability, and cost effectiveness. Similarly, procurement procedures in NTNC projects shall be fair and transparent, efficient, and transparent, and shall allow all capable suppliers interested in providing goods and services for such projects to participate.

6. NTNC Fiduciary Aim

The fiduciary management of a NTNC project shall aim to ensure that:

- funds flow smoothly, adequately, regularly, and predictably from those providing them to communities, CBOs, or local government bodies for implementing project activities
- funds are managed properly and efficiently by the bodies receiving funds, and applied only to their intended purposes
- sufficient and accurate information on project activities including usage of funds flows smoothly and regularly among communities, local governments, and stakeholders, including project beneficiaries and financiers, without placing too large a burden on any layer
- accountability is stimulated through a strong flow of information among all concerned levels of government and the public on public investments and on the performance of relevant local governments, CBOs, and communities, and
- the capacity of the community and local institutions to own and manage their activities is strengthened.

7. Framework

- The teams working on NTNC fiduciary management arrangements shall build on and improve existing systems rather than to develop parallel ones. This requires a reasonably comprehensive understanding of the related systems in place at all levels where project activities shall be implemented.
- Misuse of or failure to properly account for funds can erode the reputation of NTNC. Each level of government may raise concerns about devolving resources to the level below it, while lower levels may doubt the ability of higher-level governments to effectively manage resources on their behalf.

- Depending on the project design, a NTNC project shall need to address accountability at the following levels:
 - within the community’s development committee and from the community’s development committee to non-committee members of the community
 - from intermediary groups (e.g., CBOs) to the community and to the implementing entity (NTNC field)
 - from local interested groups or civil servants to their constituents
 - from project staff to interested groups or civil servants, and
 - from the NTNC center to external donors.
- NTNC project arrangements depend on the specific activities and implementation needs of each project and on the national and local context and culture. Although projects vary greatly, three basic NTNC models can be distinguished according to the locus of primary responsibility for project implementation:
 - Central level—possibly including the NTNC center
 - Communities; or
 - An intermediary entity that fulfills a fiduciary role, such as an CBO or a private company
- A hybrid model can also be used. For instance, communities might be responsible for technical implementation but procurement and financial management might be entrusted to a CBO.
- It is more appropriate for communities themselves to take responsibility for goods and services within the reach of the communities and for support to economic activities, through:
 - funding mechanisms that give local authorities access to resources for infrastructure investments benefiting several communities
 - funding mechanisms that encourage local investment
 - capacity-building assistance to local common-interest groups to promote local conservation initiatives

The use of CBOs or other intermediaries may be appropriate where there is limited capacity at the local level and it might take time to build these capacities, and for emergency projects.

- The field offices shall identify the model that best fits the project and the local context. Although most arrangements are the same regardless of who implements the project, the

choice of a specific model shall guide at least some of the fiduciary management aspects of the project.

- Most communities have their own constitution and, usually, administrative and financial regulations governing community development and the institutions and the flow and management of funds involved in it. In many cases, for example, public funds targeted to community development are incorporated in the user group budget and have to be accounted for in a strict I format determined for audit purpose.

III. Elements of NTNC Fiduciary Management System

To the extent possible, in NTNC projects it is important to devolve responsibility to the community, ensure that procedures are fully accountable to the government apparatus and the communities concerned, introduce a high level of transparency, and simplify procedures and processes (especially by minimizing paperwork).

8. Flow of Funds

- Typically, the large number of small-value transactions require supporting documents to be kept at the community level, and the use of simple, consolidated reports to document disbursement requests. Ideally, a simple financial report and milestones defined in the financing agreement between the NTNC and the beneficiary community serve as the basis for the disbursement of funds.
- NTNC teams must pay close attention to the flow of funds, especially in relation to the number of tiers before the funds reach the end users, and the size and number of payments that shall be made. Factors to be taken into account include the geographic coverage of the project, the location of financial management entities, the government's financial and accounting regulations.
- NTNC projects must identify the most appropriate channel in consultation with community members and other stakeholders in accordance with NTNC's internal financial mechanism, ensuring that the chosen channel is compatible with other attributes of good management identified.
- The general rule is that funds shall be channeled to the level where the activities are actually carried out. Funds shall therefore be transferred to the bank account of the entity in charge of the implementation (the community or CBO) via NTNC's internal fund flow

and fund disbursement mechanism, except in the absence of adequate banking facilities or capacity for implementation, when they may be managed as an advance.

9. Financing Agreements

- The approval process for community projects includes the need for the community to plan, program, and budget its subprojects. The forms of the plan and budget for subprojects are usually documented in the financing agreement between the beneficiary community and the NTNC, and shall be quite simple:
 - a comprehensive list of activities, their approximate timing, their estimated costs and sources of financing and estimated benefits; and
 - a listing of responsibilities for each aspect of the subproject before, during, and after implementation.
- The financing agreement between the NTNC and the community shall ideally specify a specified amount contribution from the NTNC for specified deliverables, and define payment terms. Disbursement of a given tranche can then be made against the attainment of a specified milestone, progress report, or evidences.
- Where there are budget savings, it is usually good practice to allow the community to use these to finance eligible expenditures under the project without having to undergo a process of formal approvals.
- From a fiduciary management perspective, the financing agreement with the community shall address the following topics:
 - legal status of the community;
 - scope of activities covered, including timeframe;
 - amount of the funding and contributions of the community;
 - reporting requirements (financial and progress);
 - terms and conditions of payments to the community group (lump-sum payments or actual costs payments)
 - financial management requirements of the community group;
 - simple procurement plan;
 - roles and responsibilities of all parties, including supervision and monitoring, through implementation and including the operation and maintenance of the investment after completion of the project;
 - dispute resolution/termination procedures

- remedial actions, sanctions; and
- simple procedures for amending the agreement.

10. Releases or Tranches Paid to Community Groups

The financing agreement or NTNC signed with the community group typically calls for the funds to be disbursed in tranches, depending on the size of the funding, the length of the implementation period, and the capacity of the community.

11. Community Contributions

- Community contributions reduce overall project costs and are essential to sustain project achievements in the long term, especially as regards operation and maintenance (see J below). Most community projects require communities to contribute a proportion of the total cost of their subproject. Such contributions shall be established as an element in the subproject financing plan and the project contract.
- Agreement must be reached at the design stage regarding the level and nature of the community contribution, which could be in cash, in kind, or a mixture of the two. It is important to establish who should contribute and to whom, and when, how, and where the contribution should be given.
- The community's system of tracking contributions shall vary based on the type of contribution. Systems for cash contributions shall monitor cash received, cash balances, and payments made. Systems for in-kind contributions shall vary depending on whether the contribution is measured by input or output.

12. Procurement

- The community is responsible for ensuring that project procurement is carried out in accordance with the Agreement and the procurement schedule.
- The thrust of a community project is the involvement of communities in the formulation, design, and implementation of their subprojects. Typically, a community project includes many small, simple subprojects that are geographically dispersed and that are implemented by communities that have various degrees of procurement expertise.
- Publicity is an important feature in community projects, to inform community members and potential providers of goods, works and services about project development and activities, and to enhance transparency and competition in

procurement processes. Publicity may take the form of information campaigns notices or billboards placed in appropriate locations (e.g., local newspapers, public places, Municipalities/Rural Municipalities), and community meetings.

13. Risks and Internal Controls

- As in every project, a good system of internal controls is indispensable for the proper fiduciary management. The internal controls and audits at the NTNC and field levels follow normal fiduciary procedures.
- Risk Factors. Risk factors that need to be addressed include:
 - Disbursement to the community' bank accounts is based on progress reports while the supporting documents are best kept at the level where the expenses are incurred;
 - Community groups may lack the necessary capacity;
 - Community representatives may not be truly representative of the community (elite or political interference).
- NTNC teams shall ensure that the risks associated with community projects are mitigated by clear transparency rules and other methods for empowering and training communities to exercise fiduciary control over their leaders, as well as by suitable internal control procedures. The mitigation system shall be simple but effective. Key controls points to consider include:
 - no individual shall be able to initiate, authorize, execute, or record a transaction without the active involvement of someone else (for example, all withdrawals and transactions shall be witnessed and countersigned);
 - risks of loss, leakage, fraud, inaccuracy, or mistake shall be identified at all levels, carefully assessed, and measures put in place to eliminate or minimize them;
 - the measures shall not unduly slow the flow of funds or project implementation;
 - fiduciary management supervision at the community level shall be integrated with monitoring and evaluation to ensure a close link between technical/progress reporting and financial reporting, as a way to support the validity of the expenditures;
- Successful internal control and financial management of a community project require that beneficiaries and other stakeholders be kept well informed at all times and at all levels about their entitlements, rights, obligations, and the project's costs and benefits.

- Internal audit by central government or local government or simply by trained members of the community shall also be encouraged as an integral part of the internal control system.
- A simple, inexpensive internal ex-post audit of community subprojects designed to confirm that funds have been spent on the intended purpose and that the community has received value for money can be a valuable addition to the quality and internal control framework. This ex-post audit is often linked to the overall monitoring and evaluation of the community project.

14. Community Record-Keeping and Accounting

Successful record-keeping and accounting systems can range from a very simple hand-written record of receipts and payments up to a full accrual basis accounting system. At the community level, it is important to keep simplicity as a primary objective. Key principles to apply to the community accounting system include:

- use of local language
- all transactions (cash and bank) shall be recorded in simple formats
- supporting documents shall be retained, and
- as few forms as possible shall be used, focusing on the needs of the community

15. Project and Community Monitoring and Reporting

- Designers of NTNC financial management reports shall consider either (a) adopting the existing or mandated government reporting formats and requirements; or (b) adapting the government reporting system to conform to project standards. The objective is to avoid reporting essentially the same project data in several different formats to satisfy different stakeholders.
- Simple reporting formats shall be created, as follows:
 - **Financial.** The format of the financial reports may be either summary sources and uses of funds, or cash and bank balances.
 - **Physical.** The physical progress reports may be equally simple in format and content, and shall be received together with the financial reports.
 - **Link with the Financing Agreement.** Report formats shall be clearly specified in the financing agreement, preferably by attaching a copy of the agreed format.

16. External Audit Arrangements

- To ensure accountability, it is important to have a person (or persons) independent of the project verify internal controls and transactions.
- The audit arrangements shall be adapted to the model used for the project and shall clearly define the scope of the audit of the project accounts and of other audits at the project level.
- Community organizations shall be encouraged to be audited for their own purposes as part of the project reporting systems as documented in the financing agreements.

17. Sustainability and Provision for Operation, Repairs, and Maintenance

- The design and implementation of the fiduciary system at the local level shall consider the sustainability of the investment and the need to account for operation and maintenance.
- All-important operations and maintenance issues, including delegation of responsibilities, shall be agreed at the earliest planning, and shall be clearly stated as an integral part of the financing agreement between the community and the NTNC. Where inputs are required from line agencies of the government, or from non-government sources, these shall be formally agreed at the relevant level before the project is approved.

18. Project Operational Manual

All NTNC Project operational manuals shall contain such fiduciary policies and procedures as are needed to enable the project to efficiently use, account for, and report on expenditures, and shall include agreed formats for procurement activities, accounting records, and reporting.

19. Capacity Building

Typical community capacity-building requirements include an adequate number of people either trained or identified to be trained in basic bookkeeping and record-keeping procedures as well as in monitoring and evaluation.

20. Disbursement Procedures and Eligibility

- The disbursement procedures under the projects match the methods of payment described in the agreement.
- The disbursement percentage for community projects shall comply with standard Government restrictions on financing of taxes, and shall be affected by how the project accounts for community contributions.
- **Expenditure Eligibility:** The following shall be considered when determining the eligibility of expenditures for NTNC financing:
 - **Progress Payments**—if the funding is made on a lump-sum basis, the periodic payments (tranches) to the community group are eligible expenditures. The initial payment could be an advance, but shall be made in line with the provisions of the financing agreement; typically, a bank guarantee is not required. Progress payments are not considered advances since they are payments made against physical progress.
 - **Advances**—if the funding provided to the community group is based on actual expenditures or a combination of lump-sum and actual expenditures, then the initial advances to the community can be treated as an eligible expenditure as long as they are made in line with the provisions of the financing agreement. The final payment to the community would need to be based on the actual expenditures to ensure that advances to the community were not in excess of the actual cost and that actual expenditures are properly recorded.