

# FINANCIAL GUIDELINES ISSUED BY KINDERMISSIONSWERK

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## **1. PROJECT APPLICATION**

### **1.1 Your Project with Kindermissionswerk (KMW)**

#### **1.1.1 Need Based Project Funding**

Each project is accompanied by a budget to itemise the planned financial and personnel requirements in the project country. This budget, combined with the objectives and measures, forms the basis for the decision by our committees. The financial requirements are derived from the project activities defined in the application (logframe) and the existing organisational structure (own resources).

The applicant is obligated to use the funds in an **economical and prudent manner**.

**Changes** are not uncommon in project work and are even necessary in order to achieve the final impact. Amendments of any kind must be approved by the KMW before implementation (see chapter on change management).

#### **1.1.2 Particularities for large-volume projects (usually over 80,000 euros per year or 200,000 euros in a funding cycle)**

The requirements for handling large-volume and long-term (more than 3 years) projects are set exceptionally high. Internal control systems and accountability are a key focus for these projects.

For this reason, the following elements are mandatory in project management:

- Forgery-proof accounting software including cost central accounting in case of co-financing
- **Annual audit** from a pre-determined annual or total funding amount (usually from 80,000 euros per year)
- Conducted in accordance with KMW standard contract.

To ensure the independence of the external audit, the auditor must be changed at least every 6 years.

#### **The following applies as a standard internal control mechanism for all projects:**

- Unrestricted enforcement of the dual control principle
- **Separate project bank account:** must be opened after contract is signed
- Regular cash book verifications with corresponding documentation

#### **1.1.3 For first-time funding: organisational structure check**

- Information pertaining to annual income & expenditure
- Information on Overall Operations: Annual Reports and Accounts of Activities
- Organisational structure: contact details and organisation chart etc.
- Legal form (current extract from the relevant registry depending on the legal form)

#### **1.1.4 For renewed funding: Terms and conditions**

The implementation of recommendations for action from previous project phases, from previous audits and recommendations from the KMW will be taken into account before renewed funding from the KMW.

## **1.2 Cost and financing plan**

The cost and financing plan, which outlines the approved costs and financial resources, is **an important part of the contract**. The financial statement will also be prepared in accordance with this.

Proper **budget planning and -control** is an important prerequisite for successful implementation.

The cost and financing plan is prepared in the **local currency**. Approval and subsequent project payments by the KMW are carried out in euros. The exchange rate is set by KMW. Any exchange rate losses are absorbed by the reserve in the budget -exchange rate gains, on the other hand, will reduce the total disbursement amount.

If there are two common local currencies, we recommend using the **most frequently used or the most stable currency** ("functional currency") as the local currency for the project. This will also be used for the financial statements.

**Financial statements** are always prepared **in accordance with the budget in local currency**.

### **1.2.1 Cost of the Proposed Project**

Only planned and eligible costs are budgeted:

- With accompanying cash flow (no financing of imputed costs or notional costs such as provisions or depreciation)
- With invoice date from the specified project start date (no back financing)
- With direct reference to the project (no financing of cost items that have no connection to the project)
- With unit costs and quantities based on real values (e.g. updated values from the previous year, cost estimates with award notes, remuneration tables, national travel expense allowances)
- With booked and stamped (with date, consecutive receipt number, checked and paid, stating the KMW project number) receipts and, if necessary, a cost centre invoice
- Vouchers must be digitally legible and traceable in a voucher list and both must be made available to KMW
- Own receipts are permitted in exceptional cases, must be justified in principle and are only permitted below the threshold of 500 euros.

Note: **Indirect costs** ("overhead costs") can only be accepted if a comprehensible cost calculation is submitted and approved by the KMW

Tips for budget planning and control:

- What are the underlying budget assumptions (budget hypothesis): What? Who? How much? Where?
- Detailed cost calculations and the maintenance of detailed project budgets ("budget sheets") help with the
  - Subsequent traceability of budgeting: what was actually budgeted?
- Cost control: how did this cost deviation come about?

Examples:

Cost of 1 starter pack for the school

<i>Detailed Cost</i>	<i>Unit</i>	<i>Quantity</i>	<i>Unit Cost</i>	<i>Total Cost</i>
1 School bag	piece	1		
12 colored pencils	piece	12		
1 ruler	piece	1		
5 notebooks	piece	5		
1 writing pad	piece	1		

Budget for Workshop XXX

<b>Budget Project Activity 1</b>						
<i>Account</i>	<i>Cost</i>	<i>Description</i>	<i>Unit</i>	<i>Quantity</i>	<i>Unit Cost</i>	<i>Total Cost</i>
618	Material					
622	Consultation Cost					

Breakdown of costs by cost category:

During the course of the project, the actual cost categories may not deviate by more than 20%.

**1. Building expenses**

- Planned construction measures such as **new construction or reconstruction work, renovations or refurbishments**
- Costs for **specialised planning** such as architect, statics, soil surveyor, fire protection, etc. - at least three cost estimates from the architect must be available
- Off-cost own contribution: land or existing building and approval costs for the construction project - proof of ownership must be provided
- Every major construction project is subject to two external inspections:
  - Approval by a **Construction Auditor**: the external building inspection including building supervision, invoicing and reporting is carried out by an architect or civil engineer - at least three comparative offers for the building costs and required specialist planners must be submitted (if no further comparative offer is available, a written declaration is required)
  - Audit by an **auditor**
- Maintenance costs (e.g. minor repairs, maintenance, inspections, painting work) are budgeted in the project management cost category

Notes on the breakdown of cost:

- Cost breakdown with subtotals of the **construction** according to the plans and in the form of a bill of quantities with mass determination, unit price and units of measurement (basic price, quantity, m<sup>2</sup> and volume) including all work and materials
- Costs for specialist planning such as architect, statics, soil surveyor, fire protection, etc. must be itemised

## 2. Non Recurring Expenses (Investments)

Procurement over €500 (inventory obligation), e.g:

- Vehicles
- Equipment and machines
- Fixtures and fittings
- Other investments (e.g. purchase of licences)

**At least 3 written cost estimates with an award note** are required, which must be archived as part of the supporting documents for possible review by an external auditor.

The investments purchased in the project are **earmarked** for a specified purpose: 5 years for purchases under €50,000, 10 years beyond that.

## 3. Personnel Cost

- Staff with permanent employment (by function):
  - o Employer's gross salary incl. social security contributions per person (% social security contributions & gross salary)
  - o For part-time staff, indication of the percentage of working hours in the "% engagement" column) and the employer's gross salary on a full-time basis
  - o For staff not employed full-time for the project, state the percentage of employment in the "% engagement" column
- Staff must have at least health and accident insurance - additional voluntary insurance may need to be taken out for the employee

Detailed breakdown of these personnel costs per person additionally in the "Payroll structure" tab

- Gross salary: monthly basic salary
- Other (voluntary) elements of the gross salary:
  - o Any voluntary asset-forming benefits, supplements and allowances, flat-rate taxed salary components or non-cash benefits from benefits in kind (only eligible for recognition if objective assessment criteria are applied and used sensibly in the project context) - is usually calculated as a % of gross salary or as a lump sum
  - o Any voluntary employer social security contributions (if the staff do not have statutory health or accident insurance)
- Statutory employer social security contributions and other statutory salary elements: every permanent employee must be covered by statutory insurance (e.g. health, pension, long-term care and unemployment insurance) - usually calculated as a percentage of gross salary or as a lump sum Statutory severance pay entitlement as well as local bonuses, etc.
- Annual onetime payments: XXX
- Expenses for staff training (costs per training day per person, separate breakdown of any transport and catering costs)

## 4. Ongoing Expenses for Project Activities

- 1 budget line per project measure (see logframe)
- Costs for events can be budgeted as follows:
  - o Unit: costs per participant (beneficiary) per event
  - o The detailed breakdown of costs, e.g. for materials, catering, accommodation, transport, external room hire, print media, etc. is provided in the "Budget explanations" tab
- Freelance staff (personnel without permanent employment) with allocation to budget line

**5. Project Management**

- Premises costs: rent, electricity, gas and water, maintenance of the project office (e.g. minor repairs, maintenance, painting, etc.)
- Maintenance costs not directly related to the project must be specially justified
- Communication: Internet, telephone, etc.
- Bank charges incurred by the recipient bank upon receipt of the KMW disbursement
- Consumables for operation (incl. maintenance and repair), administration, logistics, etc.
- Mobility: project vehicle, operating costs for project vehicles
- Administrative costs must be documented in detail, in principle overhead costs cannot be requested
- Exceptionally: Accountant, construction auditor, etc., if commissioned as a consultant/freelancer.

**6. Evaluation**

- Internal or external evaluation with available ToRs and evaluation report
- The following information must be available:

When applying for the Project	Approx. 6 months before the planned evaluation
<ul style="list-style-type: none"> <li>- Rough cost planning and indication of a lump sum with reference to the calculation basis</li> <li>- Indication of the purpose of the evaluation and when it is planned</li> </ul>	<ul style="list-style-type: none"> <li>- The evaluation budget must be specified</li> <li>- Begin with the concrete preparations: detailed cost plan, ToR, evaluator search and selection, etc.</li> </ul>

**7. Audit**

- External audit (annual audit for large-volume (80.000 Euro per year or 200.000 Euro total funding) and long-term projects (More than three years duration) - if applicable, overall audit for projects lasting at least three years after the end of the project before project completion in the smaller segment - institutional audit for long-term partners with several projects)
- Breakdown of any transport and catering costs in the "Budget explanations" tab

Instructions for commissioning the auditor:

- Execution of the audit in accordance with the KMW standard audit contract
- The auditing company or auditor must be changed every 6 years
- At least 3 written cost estimates must be submitted and a justification of the auditor selection must be submitted after project approval - KMW reserves the right to object to the recommendation depending on the evaluation in the internal auditor pool

**8. Reserve**

- Is in most cases financed by the KMW
- Under certain conditions, the reserve can be requested from KMW when the cost plan is drawn up. Payment of the reserve must be requested by the partner (e.g. in the event of currency losses, proven cost increases) and approved by KMW.

### 1.2.2 Financing the Proposed Project

As this is needs-based funding, local contributions must be primarily mobilised.

The local contribution can be made over the entire duration of the project.

Individual donors cannot only partially finance a selection of budget lines or measures. In the case of alternative requirements from third-party donors, approval must be obtained from the KMW.

The overall financing of the project must be guaranteed and presented in the financing plan.

#### **Monetary contribution ("local contribution")**

Monetary contribution by the project organiser that can be transferred to a separate bank account and registered in the books (there is an actual cash flow)

##### Examples:

- *Land & building permits in the case of construction projects*
- *Sale of products*
- *Contributions from the target group, e.g. participants, parents, etc.*
- *Operating assets*
- *Private donations*

Non-monetary personal contributions must be presented exclusively in the narrative application.

The value of contributions in kind and labour is assessed positively, as these increase the involvement of the project partner and possibly the target group ("ownership"/"implication") in the project (environment) and lead to cost savings in the budget.

##### Examples:

- *Free shared use of rooms/vehicles/objects*
- *Labour provided by volunteers*
- *Donations in kind*
- *Free advice from members of the organisation's network*

#### **1. Third Party Contributions**

(Contractually) secured monetary contributions from other donors for the same project that originate neither from the project organiser nor from KMW.

The amount is stated per project year and donor organisation.

#### **2. KMW-Funds**

The amount of funding requested from KMW.

#### **3. Bank Interest**

Bank interest earned during the project term represents additional income in the project, which is shown as such and spent in agreement with the KMW.



### **1.3 Change management**

To avoid subsequent repayments, changes of any kind must be approved by KMW before implementation, as they may result in budget adjustments:

- Changed target group: deviations of more than 20% per cost category in relation to the project duration
- Addition or cancellation of measures
- Change in the duration
- Change in the project location

The KMW checks whether the change is permissible within the framework of the above-mentioned principles and approves the change request (resulting in a "**revised budget or amendment budget**") or rejects it, if necessary.

## **2. APPROVAL PROCEDURE**

The approval of the project application is decided by the KMW committees.

This may be subject to provisions (securing overall funding or implementation of certain measures before the start of the follow-up project) or with contractual conditions (implementation of measures during the course of the project).

The KMW approves a maximum funding amount in euros.

## **3. KMW DISBURSEMENTS/ Provision of funding**

### **Request for funds**

Once the contract has been signed and sent electronically, the first instalment can be requested from KMW using the funding request form. All further instalments can be requested, typically every six months, after submission (by project partner) and subsequent review (by KMW) of the financial and audit report (if applicable).

The amount of the instalments should correspond to the planned financial requirements for the specified period within the approved budget. The first instalment may include an additional two months of liquidity in order to avoid liquidity bottlenecks during the review of the financial reports by the KMW.

Alternative payment cycles (monthly or quarterly payments) must be agreed in advance with the KMW.

### **Bank Documents**

After each KMW disbursement, a stamped and signed receipt issued by the bank must be submitted promptly, on which the following information appears:

- Name of the donor (Kindermissionswerk 'Die Sternsinger' e.V.)
- Account number of the recipient
- Name of the recipient
- Date of receipt of money
- Amount received in local currency and, if applicable, in foreign currency
- Bank charges
- Exchange rate in relation to the amount received in USD or Euro



In any case, the complete disbursement route must be documented by bank receipts to ensure **comprehensive verification**:

- When transferring to a foreign exchange account of the project partner: each instalment withdrawn or forwarded to the project account
- The KMW does not accept collective transfers or exchanges in exchange offices that are not authorised by the state

#### **4. AUDIT REPORTS**

Financial reports will frequently be verified by an external auditor. KMW also reserves the right to request random samples of supporting documents at any time. In the event of a rejection note or even a refusal to issue an audit certificate, payments are stopped immediately.

In the audit report (particularly in the management letter), the auditor draws up **recommendations for action to minimise risk** for the project sponsor. The project partner undertakes to implement an **action plan** within a certain period of time and to inform the KMW regularly about the progress of implementation.

If there are deviations from the financial report, the **figures from the audit report are included** in the final financial statement.

#### **5. PROJECT CLOSURE**

##### **5.1 Balances in the Project**

In the event of a follow-up phase, the balance held by the project partner is generally transferred to the follow-up project as the initial balance.

Amounts not disbursed remain with KMW and benefit other projects.

##### **5.2 Assessment of the financial cooperation with the project partner**

At the end of the project, KMW carries out an evaluation of the (financial) cooperation to date.

The following points are taken into account:

- Quality of budget planning and control
- Plausibility of liquidity planning
- Change management: were changes communicated ahead of time?
- Audits: are there any particular recommendations/risks from the audits? To what extent were the recommendations for action implemented in order to minimise the risk for the project sponsor and for KMW?
- Overall impression of the financial cooperation: trusting and honest?

Depending on the final (content and financial) evaluation, the work with KMW will be continued (possibly with certain conditions) or not. Partners with good to very good financial management also have the opportunity to apply for additional funding from the KZE via the KMW.

**Obligation to notify: KMW must be informed immediately of any changes in the relevant authorities at the project partner.**

We look forward to a successful collaboration with you!