

FINANCIAL GUIDELINES OF THE “KINDERMISSIONSWERK”

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1. PROJECT APPLICATION

1.1 Your Project with Kindermissionswerk (KMW)

1.1.1 Needs-Based Project Funding

Each project must include a budget that documents the anticipated financial and personnel requirements in the project country. Together with the objectives and activities, this budget forms the basis for the decision-making process by our committees. The financial needs are derived from the project activities defined in the application (Logframe) and the existing organisational structure (own resources).

The applicant is obligated **to use funds efficiently and economically**.

In project work, **changes** are not unusual and can even be necessary to achieve the intended impact. However, changes must be approved by KMW prior to implementation (see Chapter: *CHANGE MANAGEMENT*).

1.1.2 Specific Requirements for Large-Scale and/or Long-Term Projects

The requirements for managing large-scale projects with extended funding periods (KMW funding typically exceeds 80,000 euros per year or 200,000 euros in the funding cycle) are particularly high. These projects place a strong emphasis on internal control systems and accountability.

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

- Fraud-resistant **accounting software**, with cost center accounting if co-funded by other third-party donors.
- **Annual audits** for projects exceeding a certain annual or total funding amount, including emergency aid and KIPAs (generally required for amounts exceeding 80,000 euros per year).
 - Audits must be conducted in accordance with the KMW model contract
 - To maintain the independence of the external financial audit, the auditor must be rotated at least every six years

For institutional support and the funding of multiple projects by a project partner, institutional audits will be periodically required.

1.1.3 Initial Funding: Organisational Structure Review

KMW is committed to thoroughly reviewing the organisational structure of the contract partner before processing a contract for initial funding.

For this review, we require the following documents and information:

- **Financial overview:** Details on the organisation's annual income and expenditure
- **Comprehensive activity report:** Annual and activity reports providing a thorough overview of the organisation's activities and goals
- **Organisational structure:** Current contact details and an organisational chart to illustrate the organisational structure
- **Legal status and documentation:** Proof of legal status as a legal entity, for example through a current registration extract from the relevant register for the respective legal form

1.1.4 Conditions for Repeat Funding

Prior to approving repeat funding, KMW will review the recommendations from previous project phases as well as the results of earlier audits and any recommendations provided by KMW.

1.2 The Budget and Financing Plan

An essential **part of the contract** is the approved budget and financing plan in euros, which sets out the authorised costs and financial resources. This forms the basis for financial reporting.

Effective **budget planning and control** are key to the successful implementation of the project.

The budget and financing plan should be prepared in the **local currency**, while approval and subsequent project disbursements by KMW are made in euros. The exchange rate is determined by KMW. Any exchange rate losses may be absorbed by the reserve within the budget, while exchange rate gains reduce the total euro disbursement amount.

For regions where two local currencies are commonly used, it is recommended **to use the most widely accepted or most stable currency** as the project's base currency. Financial accounting and reporting must also be conducted in this currency.

Financial reporting always **compares to the budget in the local currency**.

1.2.1 Project Costs

Planned costs are categorised according to standard cost categories and charged accordingly.

Only approved and eligible costs specified in the budget are covered:

- **Costs involving actual cash flow:** Only costs requiring real cash flow are financed; estimated costs, such as provisions or depreciation, are excluded
- **Invoice date post-project start:** Only costs incurred after the contractually agreed project start date are eligible, with no reimbursement for costs incurred prior to project commencement

- **Direct project relevance:** Financing is limited to costs with a direct relevance to the project; costs unrelated to the project will not be financed
- **Real unit costs and quantities:** Budgeted unit costs and quantities must be based on reliable, real values, such as updated values from the previous year, verified cost estimates, pay tables, or national travel allowances
- **Booked and stamped receipts:** Receipts must be booked and stamped, including the KMW project number, date, consecutive receipt number, as well as confirmation of review and payment. Cost centre allocation is applied as needed
- **Recording in a digital receipt list:** All receipts must be recorded in a digitally readable, traceable receipt list, and both the receipts and the list provided to KMW
- **Exceptions for internal receipts:** Internal receipts are exceptionally allowed if well justified and kept below a value threshold of 500 euros

Notes:

- **Indirect costs (overhead costs):** These can only be covered if a comprehensible cost breakdown is provided and approved by KMW
- **Ineligible expenses:** Costs deemed ineligible cannot be charged to KMW and must therefore be funded by the applicant

1.2.1.1 Cost Categories Breakdown:

Cost Category 1: Construction Expenses

Expenses for construction activities, such as **new builds, renovations, or refurbishments**, must generally be reviewed and approved by the construction advisor.

- This includes expenses for **building materials, contractors, and specialists** like architects, structural engineers, soil testers, and fire safety experts. For costs exceeding €500, at least three cost estimates must be provided
- Additional in-plan contributions: Any land, existing building, or permit costs involved in the construction must be substantiated with (ownership) proof
- Maintenance costs: Smaller repairs, maintenance, inspections, and painting are budgeted under the "Project Administration" category

Notes on Cost Breakdown:

- **Cost estimates** should provide intermediate summaries for trades, aligned with construction plans, and in the form of a *bill of quantities*, including measurements, unit prices, and quantities (base price, amount, m², and volume) covering all work and materials
- **Costs for specialists** such as architects, structural engineers, soil testers, and fire safety consultants must be itemised

Cost Category 2: One-Time Expenses (Investments)

For purchases over €500 (requiring inventory), such as:

- Vehicles
- Equipment and machinery
- Furnishings
- Other investments (e.g., licenses)

At least three written cost estimates, with an award justification, are required and must be retained as part of the documentation.

Investments made within the project are subject to restricted use: for purchases **under** €50,000, the restriction lasts five years; for purchases **over** €50,000, the restriction lasts ten years.

Cost Category 3: Personnel Costs

Personnel on Permanent Contracts (by function):

- **Employer's gross salary:** This includes the gross wage plus social security contributions per individual. The percentage for social contributions and the gross wage must be specified
- **Part-time personnel:** For part-time employees, the proportion of working hours should be indicated in the “% share” column, along with the gross salary based on a full-time position
- **Insurance cover:** Personnel on permanent contracts must be covered by at least health and accident insurance. If required or advisable in the respective country, an additional voluntary insurance policy should be arranged for the employee

Notes on cost breakdown:

- **Gross salary:** The basic monthly salary for permanent personnel
- **Additional (voluntary) salary components:** This includes any optional employer-paid benefits, allowances, or taxable fringe benefits if they are objectively valued and relevant within the project context. These are generally calculated as a percentage of the gross salary or as a fixed amount

- **Optional employer social contributions:** This applies if personnel are not covered by statutory health or accident insurance
- **Statutory employer social contributions and other legally mandated salary components:** All permanent employees must be covered by statutory health, pension, long-term care, and unemployment insurance. These mandatory contributions are usually calculated as a percentage of the gross salary or as a fixed amount

Additional legally required components include severance entitlements, locality allowances, and other relevant bonuses.

- **Annual one-off payments:** Any one-off payments made annually
- **Expenses for staff training:** Training costs per person per day, with separate breakdowns of possible transport and meal expenses

Cost Category 4: Recurring Project Activity Expenses

- **Budget line per project activity:** A separate budget line is created for each project activity as outlined in the Logframe
- **Event costs:** Budgeting for event expenses is done as follows:
 - **Unit:** Cost per participant (beneficiary) per event
 - **Detailed budget breakdown:** Specific costs for materials, catering, accommodation, transport, venue hire, printed media, etc., can be itemised in the detailed budget breakdown
 - **Contracted services:** Fees for contracted personnel (non-permanent staff) are allocated to the appropriate budget lines

Cost Category 5: Project Administration

Project administration costs are itemised according to the following subcategories:

- **Office space costs:** e.g., rent, electricity, gas, water, and maintenance of project offices (e.g., minor repairs, upkeep, painting, waste management, cleaning, and security). Maintenance expenses without a direct project link require a specific justification
- **Communication:** e.g., internet, telephone
- **Bank fees:** Any bank fees incurred when receiving KMW payments at the recipient bank
- **Operational supplies:** For maintenance, administration, logistics, etc.

- **Mobility:** Project vehicle usage, operational costs for project vehicles
- **Administrative staff:** In exceptional cases, administrative staff, such as bookkeepers or construction supervisors, may be hired as contractors if required

Note:

- Overhead and indirect costs (administrative overhead or allowances) **must be** itemised in detail and justified

Cost Category 6: Evaluation

Internal or external evaluations require terms of reference (ToR) and an evaluation report.

The following information must be provided:

At the application stage	Approximately six months prior to the planned evaluation
<ul style="list-style-type: none"> - Provide an initial cost estimate, including a fixed fee and the rationale for its calculation - Clearly state the objectives of the evaluation and the proposed timeline for its implementation 	<ul style="list-style-type: none"> - The evaluation budget must be detailed - <u>Initiate concrete preparations:</u> develop a comprehensive cost plan, create Terms of Reference (ToR), and begin the search and selection of evaluators, etc.

Cost Category 7: Audit

- **External financial audits**

KMW requires audits for the following projects:

- Annual audit for projects with at least €80,000 of KMW funding per year, or a total funding volume of €200,000
- Comprehensive audit for projects with a total funding volume of €80,000, including emergency aid and KIPAs (Child sponsorships)
- Institutional audit for long-term partners with multiple projects and institutional funding

Guidelines for auditor selection:

- The audit must be conducted in accordance with KMW's Standard Audit Contract
- The auditing firm or auditor must be changed every six years

- At least three written quotes must be provided, and a justification for auditor selection must be submitted following project approval. KMW reserves the right to overrule the selection based on its internal auditor pool evaluation

Cost Category 8: Reserve

The reserve is typically funded by KMW. The reserve can be requested by the partner in cases of e.g. currency losses or documented cost increases, which then require approval of KMW.

Guidelines for Budget Planning and Control:

- **Identify the underlying budget assumptions:** What? Who? How much? Where?
- Detailed cost calculations and the maintenance of detailed project budgets help with
 - **Subsequent traceability of the budgeting process:** What specific items were budgeted?
 - **Effective cost control:** How did the cost deviation arise (have the quantity, frequency, or unit costs changed)?

Examples:

Cost for 1 Starter Package for School

<i>Detailed Costs</i>	<i>Unit</i>	<i>Quantity</i>	<i>Unit Costs</i>	<i>Total Costs</i>
<i>1 School bag</i>	<i>Unit</i>	<i>1</i>		
<i>12 Coloured pencils</i>	<i>Unit</i>	<i>12</i>		
<i>1 Ruler</i>	<i>Unit</i>	<i>1</i>		
<i>5 Notebooks</i>	<i>Unit</i>	<i>5</i>		
<i>1 Writing pad</i>	<i>Unit</i>	<i>1</i>		

Budget for Workshop XXX

<i>Budget Project Activity 1</i>						
<i>Account</i>	<i>Costs</i>	<i>Description</i>	<i>Unit</i>	<i>Quantity</i>	<i>Unit Costs</i>	<i>Total Costs</i>
<i>618</i>	<i>Materials</i>					
<i>622</i>	<i>Freelancer</i>					

1.2.2 Project Financing

As this is a deficit financing model, own resources should be applied as a priority. Local contributions may be provided over the entire project duration. Individual funders cannot finance only selected budget lines or activities. In cases where third-party donors have alternative requirements, these must be approved by KMW. Full project financing must be assured and shown in the financing plan.

1.2.2.1 Monetary Contributions

A **monetary contribution** from the project sponsor that can be transferred to a separate bank account and recorded in the accounts (i.e., an actual cash flow is involved).

Examples include:

- Land and building permits for construction projects
- Product sales
- Contributions from the target group, such as participants, parents, etc.
- Operational assets
- Private donations.

Non-monetary contributions should be presented exclusively in the narrative project proposal.

The value of in-kind donations and labour is highly regarded, as they reflect the involvement of the project partner and potentially the target group, which can result in cost savings in the budget.

Examples include:

- Free use of rooms, vehicles, or equipment
- Volunteer or unpaid labour
- Donations in kind
- Pro-bono advice from the organisation's network

1.2.2.2 Third-Party Contributions

Contractually secured financial contributions from other donors for the same project, which neither originate from the project sponsor nor from KMW.

The contribution amount must be specified per project year and donor organisation.

1.2.2.3 KMW Funds

The amount of funding requested from KMW.

1.2.2.4 Bank Interest

Interest generated on the bank account during the project period constitutes additional project income, which must be reported as such and allocated in consultation with KMW.

2. APPROVAL PROCESS

The project application is approved by the committees of Kindermissionswerk (KMW). This decision may be made subject to conditions, such as ensuring full financing or requiring specific actions before the next project phase begins. Additionally, approval may be linked to contractual conditions for implementing certain measures during the project term.

KMW authorises a maximum funding amount in euros, which establishes the project's financial framework.

3. KMW DISBURSEMENTS / PROVISION OF FUNDS

KMW disburses a maximum funding amount in euros, setting the financial framework for the project. The provision of funds by KMW is a critical component of financial support for projects. This section outlines the terms and procedures for the disbursement of funds to ensure that resources are used efficiently and transparently to achieve the project goals. KMW disbursements are made according to the contractual agreements and take into account the financial reports submitted by the project partner. Compliance with financial requirements and traceability of fund usage are both monitored. A structured process for fund disbursement is essential to guarantee proper use of resources and achievement of project objectives.

3.1 Fund Requests

After signing the contract and submitting it electronically, the first instalment can be requested from KMW using the fund request form. Subsequent instalments can usually be requested every six months, provided the project partner has submitted the financial report (and audit report, if applicable) on time, and the reports have passed review.

3.2 Instalment Amounts from KMW

The instalment amounts should match the planned financial requirements within the approved budget for the specified period. If alternative disbursement cycles, such as monthly or quarterly payments, are required, this must be agreed upon in advance with Kindermissionswerk (KMW).

3.3 Bank Receipts

After each disbursement by KMW, a stamped and signed bank receipt **must be promptly provided**.

This receipt must contain the following information:

- Name of the sender (Kindermissionswerk 'Die Sternsinger' e.V.)
- Purpose of the payment
- Project partner's bank account details
- Date of transaction
- Disbursed amount
- Amount received in local currency and, if applicable, in foreign currency
- Bank fees
- Exchange rate applied to the received amount in USD or euros
- Receipt number

The **entire disbursement pathway** must be documented with bank receipts to provide a complete record of fund usage.

The following points should be observed:

- For transfers to a foreign currency account, all withdrawals and transfers to the project account must be documented
- KMW does not accept pooled transfers or exchanges through non-state-authorized currency exchange offices

Compliance with these requirements ensures transparency in financial transactions and proper use of the funds provided.

4. CHANGE MANAGEMENT

To avoid repayments at a later stage, contract changes must be approved by KMW **before implementation**, as these may require budget adjustments.

The following aspects are relevant:

- Addition or elimination of unplanned measures
- Change in project duration

- Deviations of more than 20% per cost category over the entire project period
- Alterations in financing shares

KMW will review whether the proposed changes are permissible within the framework of the principles listed above. The **change request** may be approved, resulting in a revised budget, or it may be denied.

5. FINANCIAL REPORTS

Under the standard project contract, financial reporting occurs on a biannual basis. The report follows the specifications of Kindermissionswerk (KMW) and the structure of the approved cost and financing plan, prepared in comparison to the total budget in the local currency.

The project partner must submit financial reports within two weeks of the end of the reporting period.

Only approved and eligible expenses can be reported. The following requirements apply:

- **Cash flow:** Only expenses involving actual cash flow are eligible (no calculated costs, such as provisions or depreciation)
- **Invoice date:** Invoices must have a date after the established project start (no reimbursement for prior costs)
- **Receipts:** Expenses must be documented with booked and stamped receipts. These must include the date, a consecutive receipt number, the notation “checked,” and the KMW project number. Cost centre allocation may be required as necessary
- **Receipt list:** All receipts must be recorded in a digitally readable and traceable list. Both the receipts and the list must be submitted to KMW
- **Internal receipts:** Internal receipts are exceptionally allowed but must be justified and kept below a low-value threshold of 500 euros

Expenses deemed ineligible must be covered by the applicant and cannot be included in the financial report.

The financial report must be reviewed and accepted before the next KMW instalment can be disbursed.

6. AUDIT REPORTS

Financial reporting is often verified by an external auditor. Kindermissionswerk (KMW) also reserves the right to request and review supporting documents on a random basis.

Guidelines for engaging auditors:

- The audit must be conducted in accordance with the KMW Standard Audit Contract
- The auditing firm or auditor must be changed at least every six years
- A minimum of three written cost estimates must be provided, along with a justification for the choice of auditor. KMW reserves the right to override the recommendation based on evaluations from its internal auditor pool

Findings from the audit report:

- In the case of a disclaimer of opinion or a qualified opinion, a halt to payments is immediately implemented
- The auditor, in particular through the management letter, provides **recommendations to minimise risks** for the project sponsor. The project partner is obliged to implement an **action plan** within a specified timeframe and to regularly update KMW on the progress of these measures
- If there are discrepancies between the audit report and the financial report, **the audit figures** will be used in the final financial accounting

7. PROJECT CLOSURE (END OF PROJECT PERIOD)

Project closure represents an important step in assessing the financial cooperation between Kindermissionswerk (KMW) and the project partner. This section evaluates the financial situation at the end of the project and provides a comprehensive assessment of the collaboration.

7.1 Balances in the Project

For follow-up phases, any remaining balance with the project partner is generally carried forward as the opening balance for the subsequent project.

Any unspent amounts remain with KMW and are allocated to other projects.

7.2 Evaluation of Financial Collaboration with the Project Partner

Following project closure, Kindermissionswerk (KMW) conducts an evaluation of the financial collaboration. The following aspects are taken into account:

- **Quality of budget planning and control:** Was the budget carefully planned and managed?
- **Plausibility of liquidity planning:** Was the liquidity planning understandable and realistic?
- **Change management:** Were changes communicated in a timely manner?
- **Audits:** Are there specific recommendations or risks identified in the audits? To what extent were the recommendations implemented to mitigate risks for both the project sponsor and KMW?
- **Overall impression of financial collaboration:** Was the collaboration based on trust and transparency?

Depending on the final financial and substantive evaluation, the collaboration with KMW will either continue, potentially under specific conditions, or be concluded.