Accounting Regulations

**ISLAMIC ORGANIZATION FOR FOOD SECURITY**

Approved by Resolution No. \_\_\_\_,

adopted at the \_\_th General Assembly Meeting of the Islamic Organization for Food Security

on August , 2019

# Order No.

August \_\_\_\_, 2019

Nur-Sultan

**Concerning the Accounting Regulations**

For the purpose of implementation of Law of the Republic of Kazakhstan No. 256-V ZR dated November 21, 2014 *On Ratification of the Charter of the Islamic* *Organization for Food Security* and the Financial Rules of the ISLAMIC ORGANIZATION FOR FOOD SECURITY approved by Resolution No. GA/5-2016 dated April 28, 2016 adopted at the General Assembly Meeting of the Islamic Organization for Food Security.

**I ORDER TO:**

1. Bring the Accounting Regulations of the ISLAMIC ORGANIZATION FOR FOOD SECURITY into force from August \_\_, 2019 in accordance with the International Financial Reporting Standards applied by the organization in the preparation and presentation of financial statements.

2. Communicate this Order to all managers and advisors of business units, departments and services.

3. I undertake liability for the implementation of this order.

**Director General**

**ISLAMIC ORGANIZATION FOR FOOD SECURITY \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

# Brief Summary of the Accounting Regulations

# General

*The Accounting Regulations have been made based on the assumptions that:*

a) they are the Organization’s internal regulatory document determining a single set of principles, rules, generally accepted conditions and practical approaches to the arrangement of accounting in the preparation and presentation of financial statements;

b) the Organization’s assets and liabilities exist separately from the assets and liabilities of the Governments of Members States of the Organization of Islamic Cooperation that are the Parties to the Charter of the Islamic Organization for Food Security (economic entity assumption);

c) the Organization’s economic events refer to the accounting period where they took place regardless of actual date of cash inflows or outflows related to such events (accrual principle assumption);

d) the Organization operates and will continue as a going concern; and

e) the Accounting Regulations adopted by the Organization are applied consistently, year on year.

In the event of a change in the Accounting Regulations, a retrospective way of reflecting the changes is applied; it consists in applying the new accounting regulations to transactions, other events and conditions in such a way as if these accounting regulations have always been applied.

Each fiscal year begins on January 1 and ends on December 31.

In accordance with Law of the Republic of Kazakhstan No. 110-VI ZRK dated November 20, 2017 *On Ratification of the Headquarters Agreement between the Government of the Republic of Kazakhstan and Islamic Organization for Food Security,* the Organization’s property and assets, regardless of their location or ownership, are provided with immunities and privileges approved by the Agreement, save the events where the Director General acting on the Organization’s behalf expressly waves immunities.

# I. Administrative and Technical Section

## 1.1. Organization’s Regulatory Status

**1.1.1**. The Islamic Organization for Food Security (“Organization”) is a specialized agency of the Organization of Islamic Cooperation (“OIC”) in accordance with Article 24 of the OIC Charter. The Organization enjoys the status of a full-fledged legal entity as an international agency and operates and performs its tasks defined by the Charter through using its full legal status and capacity. The Organization has immunities and privileges, including, but not limited to legal immunity and tax exemption.

The Charter of the Islamic Organization for Food Security was ratified by Law of the Republic of Kazakhstan No. 256-V ZRK dated November 21, 2014 adopted in Conakry on December 10, 2013 and brought into effect from January 1, 2015. Business Identification Number: 171250003428.

**1.1.2. The Organization’s Registered Office:**

Registered office: AIFC Building, Block 4, C4.2, 55/21 Mangilik El Avenue, Nur-Sultan, Kazakhstan.

Law of the Republic of Kazakhstan No. 110-VI ZRK dated November 20, 2017 *On Ratification of the Headquarters Agreement between the Government of the Republic of Kazakhstan and Islamic Organization for Food Security* in accordance with the Charter of the Organization of Islamic Cooperation ratified by the Republic of Kazakhstan on February 21, 2012, pursuant to Resolution of the Council of Foreign Ministers of the Organization of Islamic Cooperation No. 3/39-Е dated November 15-17, 2012, the headquarters of the Islamic Organization for Food Security are located in the city of Astana (Nur-Sultan).

**1.1.3. According to the Charter, the main goals and objectives of the Organization are as follows:**

(a) provide expertise and technical know-how to Member States on various aspects of the effective development of agriculture, rural areas, food security, and the development of biotechnology, as well as address the issues caused by desertification, forest reduction, soil erosion and salinization, and also ensure sustainable social relations;

(b) in coordination with Member States, assess and monitor the industrial safety situation in Member States in order to identify and provide the necessary emergency and humanitarian assistance, including by creating food security reserves;

(c) mobilize and manage financial and agricultural resources for the development of agriculture and food security in Member States; and

(d) coordinate, frame and implement common agricultural principles, including through the exchange and transfer of appropriate technology.

**1.1.4. The Parties to the Organization’s Charter and the Organization’s Bodies are:**

The Parties to the Charter of the Islamic Organization for Food Security are the Governments of Member States of the Organization of Islamic Cooperation.

**The Organization’s Bodies are:**

(a) General Assembly consisting of the ministers in charge of the issues within the Organization’s mandate and their respective representatives appointed by the relevant Member States;

(b) Executive Board consisting of 8 members, including Chairperson. The members are elected by the General Assembly following the principle of fair geographic distribution; and

(c) Secretariat including the Director General and officers operating in the permanent headquarters or other established offices. The Director General approves an official list of the Organization’s employees.

**The Islamic Organization for Food Security** has a standalone balance sheet, settlement and foreign currency accounts with “Al Hilal” Islamic Bank JSC, a seal with its name in English, Arabic, French and Kazakh.

**The Organization’s staff consists of the citizens of Member States and is recognized as international workforce. For the entire term of office, a member of the Organization’s staff shall act in line with the Organization’s goals and objectives. A number of the Organization’s employees is approved according to the manning table.**

**1.1.5. The Body authorized to perform managerial functions:**

The Director General is responsible for the formation of the accounting regulations, accounting record-keeping, prompt submission of true and complete financial statements.

The Director General delegates authorities to the Manager (Advisor) of a business unit for financial resources management (“Financial Service”) and an authorized accountant, who make decisions independently based on the rules established by the Accounting Regulations and professional judgment on the formation of financial reporting indicators, including classification, recognition, valuation and calculation of elements of financial statements and their components, as well as the disclosure of related information.

**Job duties of the Director General:**

(a) appoint the Secretariat staff and monitor the implementation of the job descriptions of employees;

(b) supervise the activities of the Secretariat;

(c) prepare an annual report on the budget and consolidated closing account;

(d) submit the Secretariat’s annual performance report to the Executive Board;

(e) be responsible for the Organization’s funds and spending thereof in accordance with the Organization’s Financial Rules;

(f) collect, study, interpret, disseminate information on nutrition, foods and agriculture;

(g) provide the necessary humanitarian assistance and participate in humanitarian programs under the relevant requests and requirements from OIC; and

(h) establish the necessary regional mechanisms to address the food issues of Member States arising from food shortages, natural and man-made disasters, droughts and other similar circumstances.

## 1.2. Arrangement of the Accounting (Financial) Service

**1.2.1. The principles for the preparation and presentation of financial statements**

The conceptual basis for the preparation and presentation of financial statements are two fundamental principles: accrual method and business continuity; and the main qualitative characteristics of financial statements, such as comprehensibility, relevance (significance), reliability (fairness), prudence, full disclosure (completeness), comparability, timeliness, a balance between qualitative characteristics.

**1.2.2. Accounting is maintained by an independent business unit for financial resources management (“Financial Service”).**

The job duties of Financial Service employees are regulated by job descriptions.

The Organization’s overall accounting system is divided into:

– financial accounting reflected in the accounts of the Operating Chart of Accounts according to IFRS where income and expenses from the Organization’s activities are generated;

– tax accounting formed on the basis of the results of financial accounting in accordance with the tax laws, it does not provide for alternative accounting methods; and

– managerial accounting, which is a summary of data compiled as instructed by the Organization’s management, based on financial, cost, and tax accounting, required to analyze current and future situations and make effective managerial decisions.

**1.2.3. Accounting of assets and liabilities of business transactions is conducted in KZT and USD using *1C:Enterprise* software.**

**1.2.4. Internal and External Control**

Internal and external control is provided in accordance with Law of the Republic of Kazakhstan No. 256-V ZRK dated November 21, 2014 *On Ratification of the Charter of the Islamic* *Organization for Food Security* and Financial Rules of the ISLAMIC ORGANIZATION FOR FOOD SECURITY approved by Resolution No. GA/5-2016 dated April 28, 2016 adopted at the General Assembly Meeting of the Islamic Organization for Food Security

The Executive Board appoints a Financial Control Committee, which consists of representatives from five Member States for a period of three years on an alternating basis to audit the accounting documents of the Organization, and to ensure high-quality management of the Organization’s permanent headquarters and offices. The Committee may engage experts to assist in relevant areas, as appropriate.

The Financial Control Committee shall submit its report to the Director General, who will forward it to the Executive Board along with his/her comments. The Executive Board shall forward the report to the General Assembly by its next meeting.

The Financial Control Committee may study all relevant accounting documents and request the Executive Board, Director General or employees of the Organization to provide any information necessary, in its opinion, for the performance of its functions. Accounting documents shall be audited by the Financial Control Committee on an annual basis in order to confirm the budget and statements are correct.

**1.2.5. The documents of the Organization’s Accounting Regulations** are these Accounting Regulations, a standard chart of accounts approved by Order of the Minister of Finance of the Republic of Kazakhstan No. 877 dated October 2, 2018, and the Organization’s Financial Rules approved by Resolution No. GA/5-2016 dated April 28, 2016 adopted at the General Assembly Meeting of the Islamic Organization for Food Security.

## 1.3. Accounting Documents

**1.3.1** In order to document the facts of economic activities, the Organization uses the Standard Forms of Source Documents approved by Order of the Ministry of Finance of the Republic of Kazakhstan No. 562 dated December 20, 2012, and the forms of source documents provided for in the *1C:Enterprise* software.

**1.3.2.** The list of employees authorized to sign the organizational, administrative, financial and accounting documents is approved by order of the Director General.

**1.3.3**. Confidentiality of accounting information

The content of source documents and accounting registers is information constituting a trade secret. Access to accounting records is provided only if authorized by the management, or to the Organization’s officers.

## 1.4. Inventory

**1.4.1. Inventory applies to:**

– the Organization’s property regardless of the location; and

– property not owned by the Organization, but recorded on the accounts (in safe custody, leased).

Scheduled annual inventory of the property is conducted according to the procedure strictly on the following due dates:

|  |  |
| --- | --- |
| Inventories | October 1 |
| Fixed assets | October 1 |
| Intangible assets, deferred expenses, accounts receivable and payable | October 1 |
| Cash in bank | October 1 |
| Cash on hand | October 1 |

In order to conduct an inventory and document its results, a permanent Inventory Committee is created as appointed by order of the Director General of the Organization.

# II. Practical Section

## 2.1. Financial Statements

General-purpose financial statements are designed to meet the needs of those users who may not require the organization to prepare statements that meet their private information needs.

In the preparation of the financial statements, the Organization follows:

a) IFRS (IAS) 1 Presentation of Financial Statements;

b) IFRS (IAS) 7 Statement of Cash Flows.

Financial statements are made in KZT and USD.

**2.1.1. A full set of financial statements and frequency of submission:**

|  |  |
| --- | --- |
| **Title of Statement** | **Frequency of Submission** |
| Statement of Financial Position (Balance Sheet) as at the End of the Period | Annually |
| Statement of Profit or Loss and Other Comprehensive Income (Profit and Loss Statement) for the Period | Annually |
| Direct Cash Flow Statement for the Period | Annually |
| Accounting regulations details, explanatory notes, supplementary tables, and other information | To the financial statements |
| **Additional statements according to the Financial Rules of the Islamic Organization for Food Security** | **Frequency of Statements** |
| Statement of assessed contributions received from Member States | Annually |
| Statement of accounts receivable and payable | Annually |
| Statement of actual expenses (by items) compared to the approved budget allocation | Annually |
| Consolidated list of fixed assets | Annually |
| List of outstanding assessed contributions of Member States | Annually |
| Statement of financial condition on special accounts | Annually |

## 2.2. Income from Government Grants and Unearned Income

**“Government”** means a government, governments of Member States of the Organization of Islamic Cooperation and similar authorities, whether they are local, national or international.

**“Government grants”** shall mean assistance provided by the government in the form of transferring resources to an organization in exchange for past or future compliance with certain conditions related to the organization’s operations. Government grants do not include the forms of state assistance with a value, which cannot be reasonably estimated, and the transactions with the state, which cannot be distinguished from the normal commercial operations of an organization.

**2.2.1. The Organization’s financial resources include:**

(a) annual assessed contributions received by the Organization from Member States and approved by the General Assembly;

(b) donations and voluntary contributions from Member States, non-Member States, institutions and partners, provided that contributions from all external sources are not in conflict with the goals and rules of the Organization;

(c) fundraising from Member States and international organizations for special projects of the Organization;

(d) proceeds from the sale of publications, products, services within the Organization’s competence; and

(e) Member States are expected to make contributions to the budget in accordance with the grading scale used by OIC or a different formula approved by the General Assembly.

**2.2.2. Presentation of income-related grants**

Income-related grants are presented as part of profit or loss accounted for as other income on Account 6230 Income from Government Grants; alternatively, the grants are deducted from the relevant expenses when presented in the statements.

**2.2.3. Unearned income accounting**

Unearned income shall be evenly distributed between the periods and match the corresponding expenses (losses). Similarly, unearned income related to depreciable assets is usually recognized as income during the periods and in the proportion of accrual of depreciation of such assets.

## 2.3. Cash Accounting

In accordance with Law of the Republic of Kazakhstan No. 110-VI ZRK dated November 20, 2017 *On Ratification of the Headquarters Agreement between the Government of the Republic of Kazakhstan and Islamic Organization for Food Security* and the Organization’s goals, the Organization may unrestrictedly:

1) have any type of currency and accounts in any monetary unit; and

2) transfer its funds to and/or from the Republic of Kazakhstan and translate such funds into any monetary unit at the official currency exchange rate.

Cash includes cash on hand (in KZT and in USD), on bank accounts, on deposit bank accounts, on special accounts, cash-in-transit. Cash is recorded in the balance sheet at cost.

The Organization opens a reserve account with an amount to be fixed from time to time by decision of the General Assembly as proposed by the Director General and recommended by the Executive Board. Surplus cash as a result of excess of resources over expenses in the consolidated account for previous years shall be transferred to the Reserve Account at the end of the financial year. The Director General may withdraw amounts from the Reserve Account when funds are required, but not available, in order to meet the needs of the Organization, provided that such amounts are returned to the Reserve Account after Members have paid their contributions.

**2.3.1. Reported cash is issued for the following expenses:**

|  |  |
| --- | --- |
| **Intended Use of the Reported Sums** | **Expense Limits** |
| **Expenses related to business travels:** | |
| - travel (round trip); | According to the HR Management Rules of the Islamic Organization for Food Security |
| - accommodation; | According to the HR Management Rules of the Islamic Organization for Food Security |
| - daily allowance in Kazakhstan; | According to the HR Management Rules of the Islamic Organization for Food Security |
| - daily allowance outside of Kazakhstan | According to the HR Management Rules of the Islamic Organization for Food Security |
| **For operating, administrative and hospitality expenses:** | |
| - POL | as instructed by the Organization’s Director General, limited to and for the period indicated in the employee’s office memorandum |
| - office supplies | as instructed by the Organization’s Director General, limited to and for the period indicated in the employee’s office memorandum |
| - money order payment | as instructed by the Organization’s Director General, limited to and for the period indicated in the employee’s office memorandum |
| - settlements with various inventory and service providers | as instructed by the Organization’s Director General, limited to and for the period indicated in the employee’s office memorandum |

## 2.4. Presentation of the Financial Statements in Foreign Currency

The Organization may present its financial statements in any currency (or currencies). If the presentation currency is different from the functional currency of the enterprise, then it shall translate its performance indicators and financial position into the presentation currency.

The Organization translates its performance indicators and financial position into a different presentation currency using the following procedures:

(a) Assets and liabilities in each statement of financial position presented (i.e., including comparative amounts) shall be translated at the closing rate at the date of this statement of financial position;

(b) Income and expenses in each statement of comprehensive income (i.e., including comparative amounts) shall be translated at exchange rates at the dates of transactions; and

(c) all resulting exchange differences shall be recognized in other comprehensive income.

The exchange differences arise as a result of:

(a) translating income and expenses at exchange rates at the dates of transactions, and assets and liabilities at the closing rate, and

(b) translating the input net assets at a closing rate, which is different from the previous closing rate.

## 2.5. Intangible Assets (IA) Accounting

**2.5.1. Classification and Grouping**

Intangible assets include items that do not have tangible content, but have a value, used in the economic activities of the Organization’s for a long period of time (more than one year) and generating income.

The class of intangible assets is a grouping of assets similar in nature and the method of use in the Organization.

The Organization classifies the intangible assets as follows:

- corporate names;

- masthead and titles of publications;

- computer software;

- licenses and franchises;

- copyrights, patents and other design rights, service and operation rights;

- recipes, formulae, models, drawings and prototypes; and

- intangible assets under development.

**2.5.2. Intangible assets are initially measured at (original) cost with depreciation accrued on a straight-line basis, based on their useful lives. The disposal value of intangible assets is assumed to be zero.**

## 2.6. Fixed Assets Accounting

**2.6.1. Fixed assets include tangible assets used** by the Organization for administrative purposes expected to be used for more than one accounting period (more than 1 year).

**2.6.2. Classification and Grouping**

For the purpose of preparing the financial statements, the Organization uses the following classification by groups:

– plant and equipment;

– vehicles; and

– other fixed assets (office equipment, furniture, tools and accessories).

**2.6.3. At initial recognition, fixed assets are measured at (original) cost, which includes all actually incurred costs of the asset acquisition. The original cost of fixed assets includes all unavoidable costs until the asset is put into a state of readiness for operation.**

**After initial recognition as an asset, a fixed asset shall be carried at its cost less accumulated depreciation and any accumulated impairment losses.**

## 2.7. Inventory Accounting

**2.7.1. Inventory Classification and Grouping**

For the purposes of preparation of financial statements, the Organization uses the following inventory grouping:

• Raw materials include tangible assets intended for use in the production process with a useful life of less than 12 months.

**2.7.2. Accounting Principles**

2.7.2.1. Inventories are recorded when the legal title to such inventories under a supply contract passes from the supplier to the Organization.

2.7.2.2. Sub-accounting of the inventory movement is carried out based on accrual method of accounting for each balance account and financially liable persons.

**2.7.3. Costing**

2.7.3.1. Inventories, as acquired (received) from other organizations, are recorded at the time of receipt at cost.

The cost of inventories acquired includes the purchase price, shipping costs and other costs directly related to the purchase and delivery.

2.7.3.2. The full cost of acquired inventories is formed directly on inventory control accounts. Inventories are immediately recognized at full cost, with all costs arising added to the acquisition price.

2.7.3.3. Inventories that belong to the Organization but are in transit (transfer of ownership) are recorded in the books on the date the document was issued by the supplier.

**2.7.4. Inventory Disposal Accounting**

2.7.4.1. The Organization considers the following types of inventory disposal:

– writing off inventories for administrative purposes;

– selling inventories to a third party; and

– other inventory disposal as a result of:

a) expiration, obsolescence, other events of loss of consumer properties;

b) shortage identified in inventory;

c) theft of or damage to inventories; or

d) damage to property due to an accident, fire, act of God.

2.7.4.2. The recipient of the inventories makes up an inventory write-off certificate for actually used inventories indicating the name, quantity, accounting price and total for each item used.

## 2.8. Employee Benefits Accounting

**2.8.1**. “Employee benefits” shall mean all forms of benefits and allowances provided by the Organization to employees for services they have delivered.

The Organization distributes the total payroll budget by months, establishes the form of employee benefits, determines the initial and maximum wages, allowances and bonuses to employees of the Organization.

Employee benefits are paid by the Organization in accordance with the HR Management Rules of the Islamic Organization for Food Security and in accordance with Resolution No. GA/5-2016 dated April 28, 2016 adopted at the General Assembly Meeting of the Islamic Organization for Food Security according to positions held under individual employment agreements signed.

## 2.9. Accounts Receivable

**2.9.1.** The Organization recognizes its accounts receivable as accrual of annual contributions in a fixed amount received by the organization from Member States and total liabilities for government grants by party Member States approved by the General Assembly.

Any settlements between the Organization and Member States are made by wire transfers.

## 2.10. Accounts Payable

**2.10.1.** Accounts payable are the existing Organization’s liabilities arising from past events that will cause disposal of resources generating economic benefits from the Organization, if discharged. For the purpose of preparing the financial statements, the Organization applies the following payables grouping: trade and other payables.

No liabilities can be assumed in respect of expenses for which no provision has been made to the budget, unless the General Assembly approves such expenses to be made from the Reserve Account.

## 2.11. Payments to/from the National Budget

**2.11.1. The Organization, its assets, income and other property are exempted from any and all direct taxes**, including customs taxes, charges and levies related to inventories imported or exported by the Organization for business use as provided for by the laws of the Republic of Kazakhstan.

The Organization’s officers and their family members residing together in the Republic of Kazakhstan, who are not citizens of the Republic of Kazakhstan, shall be exempted from:

1) taxes applicable to wages or other benefits paid by the Organization;

2) all mandatory state duties; and

3) customs duties, taxes and related charges for items and other property intended to meet initial requirements and they shall have right to duty-free import of personal belongings and one vehicle, save charges for transportation, storage, customs clearance beyond the designated locations or working hours of a respective customs service and similar services. The use of the abovementioned items and property for other purposes, including selling, transferring for use, results in charging customs duties and taxes and compliance with other requirements in accordance with the laws of the Republic of Kazakhstan;

The Organization’s employees, who are the citizens or residents of Kazakhstan, will be treated according to the laws and regulations of Kazakhstan in respect of labour laws and social insurance laws.

## 2.12. Expense Recognition

**2.12.1. Separate expense accounting**

The costs of using assets and services are recognized and accounted for as expenses for the period when the related income is recognized.

Expenses are classified as follows:

a) direct expenses – expenses associated with the provision of services that can be directly included in the cost of services. Such expenses are recognized as soon as income is recognized; and

b) period expenses – selling expenses and general administrative expenses. These expenses are recognized over the period where they arise.

**2.12.2. Period expenses**

Period expenses are included in the accounting period where they were incurred. These include general and administrative expenses, which are the expenses associated with the management and arrangement of work and services.