



Financial Policies &
Procedures

Manual for Civil Society Organizations





Acronyms

AC	Audit Committee
ASP	Assessment and Strengthening Program
AFP	Authorization for Payment
CSOs	Civil Society Organizations
FAD	Finance and Accounting Department
FC	Finance Committee
GB	Governing Body
GRN	Goods Receiving Note
PO	Purchase Order
PC	Procurement Committee
USAID	United States Agency for International Development



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Section 1. General Policy Outline

1.1 Internal Controls & Management Responsibilities

- 1.1.1 Board of Governors is responsible for approving the policies for mitigating risk, while the senior management of operations is responsible for identifying risks and development of policies for mitigating risk.
- 1.1.2 The management is responsible for establishing and maintaining an adequate system of internal control within the organization with an objective to:
- i. Ensure achievement of objectives of the organization with economy, efficiency and effectiveness.
 - ii. Preserve the safety of assets;
 - iii. Improve quality of customer service;
 - iv. Ensure reliability of financial information;
 - v. Ensure staff adherence to policy and guidelines; and
 - vi. Ensure compliance of laws and regulations.
 - vii. Ensure that all policies, procedures etc., are well communicated within the organization and understood.
- 1.1.3 The above objectives will be achieved through optimum division of duties, documentation and communication of policies and procedures and establishment of an appropriate and robust accounting system together with an effective internal control environment.
- 1.1.4 Following minimum segregation of duties should be adhered to:
- i. Person responsible for procuring goods and services should not also be responsible for payments to supplier.
 - ii. The recording, checking and authorizing payments should be carried out independently of the person disbursing the payment.
- 1.1.5 For an effective internal control system, there needs to be an adequate plan of organization, involving separation of operations into appropriate divisions and sub-divisions and strict adherence to the principle of the “right man for the right job” while appointing resource persons to assume responsibility between each division and sub-division and the governing body and overall co-ordination of the institution’s activities.
- 1.1.6 Designing and implementing finance and accounting workflows for recording and custody procedures to ensure that the funds and property of the institution are properly safeguarded against theft and improper use, either by error or intent; that all expenditure are incurred only after authorization and are properly accounted for; and that all income is properly and completely accounted for and received in due course.
- 1.1.7 Management oversight is an important attribute of an effective internal control environment and the management should exercise peer review of the financial operation and position at regular and frequent intervals through establishing a system of financial and operational progress reporting framework.
- 1.1.8 Managerial supervision and review through an internal audit is also an essential element and is a part of any effective internal control system.

1.1.9 An internal audit function should be introduced within the organization to examine, evaluate and monitor the adequacy and effectiveness of the accounting and internal control system established by the management, and make appropriate recommendations.

1.1.10 Managerial oversight for the implementation and maintenance of an effective Management Information System (MIS) will be an important element for keeping it updated and relevant through continuous development.

1.2 Authorization Limits

1.2.1 The management should appoint signing officers and also review the status on continuous basis as and when required and their sample signatures together with their authorization types and limits should circulate as an Authorization Matrix (attached as Annexure D) on a regular basis.

1.3 Code of Ethics & Confidentiality

1.3.1 Strict code of ethics and confidentiality should be advocated at all levels. For this purpose, the highest governing body should approve a "Code of Ethics" and the employees should be given orientation at the time of induction.

1.3.2 The employment contract should also clearly state that their access to the financial information is privileged, strictly confidential and not for the public domain.

1.4 Record Retention

1.4.1 The financial and accounting records in hard forms shall be retained for a period of five years securely under lock and key or until it is required for audit, whichever is later.

1.4.2 The management should also be looking into the possibility of electronically archiving, at a minimum, the financial contracts and vouchers for each financial year.

For Development

Section 2. Governance

2.1 Governing Body

- 2.1.1 A legally constituted Board of Directors/Trustees will be the highest governing body and have the responsibility to design policies and/or make policy decisions around the goals, objectives, programs and activities of the organization.
- 2.1.2 The Governing body Board has the power to constitute any number of committees. However, at a minimum, the following committees will be constituted:

2.2 Audit Committee

- 2.2.1 Audit Committee is an independent body answerable directly to the Governing Body. It is mandated to verify that the operations have been conducted according to its charter and its books kept in a proper manner.
- 2.2.2 The Governing Body approves the Terms of Reference of the committee.
- 2.2.3 The Audit Committee should comprise of at least three members, out of which at least one member should from the Governing Body.
- 2.2.4 The Head of Organization and Finance & Accounts should not be part of the committee.
- 2.2.5 Following are the duties and responsibilities of the audit committee:
- i. Reviews and recommends approval of annual financial statements/ annual audit reports.
 - ii. Approves auditors (internal/external) for the next year.
 - iii. Reviews the reports of the internal auditor for taking necessary action.

2.3 Finance Committee

- 2.3.1 The Finance Committee is an independent body answerable directly to the Governing Body. The Finance Committee is mandated to make recommendations to the Board regarding finances and fund development, consistent with the stated goals of the organization.
- 2.3.2 The Governing Body approves the Terms of Reference of the committee.
- 2.3.3 The Finance Committee should comprise of at least three members, out of which at least one member should be from the Governing Body. The other two members are the Head of Organization and the Head of Accounts & Finance.
- 2.3.4 Following are the duties and responsibilities of the Finance Committee:
- i. Review annual budgets for composite and individual programs. This should be the job of the audit committee but finance committee. If it has to review from the audit perspective, then the terms should be indicated.
 - ii. Arrange for proper bookkeeping practices in accordance with the generally accepted accounting principles.
 - iii. Advise the Personnel Committee on salaries and benefits.
 - iv. Monitor the financial management of the agency.
 - v. Communicate information on possible funding sources with the Board and management.
 - vi. Review the reports of the internal auditor.

2.4 Purchase Committee

- 2.4.1 The Purchase Committee comprising of at least three members will be reporting directly to the Head of the Organization. The Purchase Committee is mandated to carry out the procurement above a certain threshold, which shall be decided by the Governing Body.
- 2.4.2 No members from the Governing Body shall be part of the Procurement Committee, as it would only consist of members from the executive staff. The Head of Finance and Accounts will be part of this committee at all times.
- 2.4.3 The Governing Body would approve the Terms of Reference of the committee.
- 2.4.4 The prime responsibility of the Purchase Committee prime will be to ensure transparency in the procurement process and to ensure that the procurements are made efficiently and cost effectively, and maximize value for money proposition for the organization as per applicable rules.

2.5 Head of Organization

- 2.5.1 Duties & Responsibilities
 - i. Reviews and approves monthly payroll summary for the staff, ensuring correct payee, hours worked, and check amount.
 - ii. Reviews and approves all expense vouchers with supporting documents for cheques requiring his/her signature.
 - iii. Reviews and approves all contracts for goods and services in excess of PKR 10,000.

2.6 Manager/Officer In-charge of Finance Section

- 2.6.1 Duties & Responsibilities
 - i. Review daily accounting journals for postings into the accounting system.
 - ii. Review and verify monthly payroll summary for the staff ensuring correct payee, hours worked, and check amount.
 - iii. Receive unopened bank statements.
 - iv. Prepare annual projects, programs and organization budgets.
 - v. Review and approve all financial statements and reports.
 - vi. Review and approve list of pending disbursements.
 - vii. Review and verify all expense vouchers with supporting documents for cheques requiring his/her signature.
 - viii. Authorize all inter accounts/funds transfers.
 - ix. Review and approve all bank reconciliations.
 - x. Review and approve all contracts for goods and services below PKR 10,000.
 - xi. Manage assets.

2.7 Accountant/ Bookkeeper

- 2.7.1 Duties & Responsibilities
 - i. Receive and open all incoming receipts, invoices, requests for payments etc.
 - ii. Prepare Receipt Log and Invoice Log.
 - iii. Process all receipts and disbursements.
 - iv. Process monthly payroll including payroll tax returns.
 - v. Submit requests for inter accounts/funds transfers.

- vi. Mail all checks for payments.
- vii. Reconcile all bank accounts on monthly basis.
- viii. Maintain and reconcile general ledger on a monthly basis.
- ix. Prepare all financial statements and reports.
- x. Manage Petty Cash
- xi. Write cash and bankbooks, and ensure daily closure of the cashbook.



Creative Approaches

CAAD

For Development

Section 3. The Financial Calendar

3.1 Governance

#	Event	Frequency
1	Monthly Closing	By 15 th of every month for the previous month closing
2	Yearly Closing	By 31 st Jan of the subsequent year
3	Quarterly Meeting of the Governing Body	By 15 th of the month subsequent to the Quarter end.
4	Quarterly Meeting of the Audit Committee	Before each meeting of the Governing Body
5	Quarterly Meeting of the Finance Committee	Before each meeting of the Governing Body
6	Management Meetings	First Tuesday (in case of holiday, the next working day following) of each month.

3.2 Specific Events

#	Event	Frequency
1	Procurement Plan for the subsequent year	Before submission of the operational plan/budget for approval from the Head of Organization.
2	Approval of yearly operational plan /budget for the subsequent year by the Head of Organization	Before last meeting of the Governing Body for the year.
3	Approval of yearly plan for the subsequent year by the Governing Body	In the last meeting of the Governing Body for the year.
4	Project Budget	Within 15 days of the financial close of the project.
5	Project Financial Close	Within 15 days of receiving the full and final payment against the project.

Section 4. Accounting Policies

4.1 Basis of Accounting

The organization will use cash basis of accounting to record and report all financial transactions. Cash basis of accounting refers to recognition of revenue and expenditure when actual cash is received or paid out.

Financial reporting purposes the "modified cash accounting" method will be used, which requires recording transactions on cash basis and adjusting these at the year-end to convert to accrual basis.

4.2 Historical Costs

All transactions will be recorded at their original cost. As such, all assets and liabilities will be accounted for and reported on this basis.

4.3 Depreciation/Amortization

Depreciation is charged on assets used by the organization and the rate will be determined in accordance with the useful life of the asset.

4.4 Short-term Investments

- 4.4.1 The organization will invest with financial institutions that are well reputed, enjoy good rating and offer competitive returns on investments.
- 4.4.2 The organization will not invest in unethical funds and in high-risk funds.
- 4.4.3 The Governing Body through Finance & Audit Committee will advise the Head of Organization on sound investment options.
- 4.4.4 Under no circumstances shall investment be made in any stocks/shares of stock exchange or any other forms of speculative equity investment.

4.5 Capital Assets

- 4.5.1 Acquisitions of capital assets are based on a budget approved by the funding agencies.
- 4.5.2 Non-program capital assets may be acquired at the discretion of the Head of Organization within the financial authority limits set by the Finance Committee or the Board through the Procurement Committee.

4.6 Materiality

Materiality refers to items, the disclosure or non-disclosure of which may influence the economic decision of a user. Material items should be presented separately in the financial statements.

4.7 Foreign Currency Transactions

- 4.7.1 Transactions in foreign currencies are converted into rupees at the exchange rates prevalent on the date of transaction. This will be the rate provided by the bank for conversion.

4.7.2 All cash and bank balances in Foreign Currency are translated at the exchange rates prevalent on the reporting date and the differential will be reported as translation gain/losses.

4.8 Full Disclosure

4.8.1 Any information that is of sufficient importance, which will most likely influence the judgment and decision of the readers, will be included in the financial statements.

4.8.2 When there is doubt as to whether certain information should be included in the financial statements, such information will in fact, be included. The organization will also comply with all donor disclosure requirements that are prescribed in the agreements signed with them.



Section 5. Accounting System

5.1 System & Software

The CSO shall deploy an automated accounting system capable of handling the following accounting modules:

1. General Ledger including Chart of Accounts
2. Project Accounting
3. Budgeting
4. Treasury
5. Fixed Assets
6. Financial Reporting

5.2 User Rights

The system should have a minimal screen level user rights options for adequate division of responsibilities during the accounting operations.

5.3 Back-up and Disaster Recovery Policy and Procedures

The backup of the accounting system will follow the following practice:

1. Daily backup on accounting servers with the last seven days of backup indexed as separate files, one for each working day.
2. Weekly backup on a specially designated in-house server other than the accounting server for the last four weeks indexed as four files, one for each week.
3. Monthly backup on a specially designated offsite server other than the accounting or the in-house designated server for the last six months indexed as six different files, one for each month.
4. Post audit year-end data backup to be placed on the accounting server, in-house designated server, and offsite designated server.

Section 6. Reporting Progress

6.1 Policy

The Organization shall maintain internal management reporting systems that provide Management and the Governing Body with the financial reports that are relevant, simple, timely, accurate, current and consistent to provide a basis for decision-making vis-à-vis financial position to improve efficiency in operations and productivity and assist in the assessment of performance standards and the attainment of goals.

6.2 Internal Financial Reporting (Management / Governing Body)

6.2.1 A reporting pack consisting of the following reports will be prepared for the management on a monthly basis, and on a quarterly basis for the Governing Board:

- i. Receipt and Payment Account
- ii. Budget Variance Report
- iii. Project Status Report (financial position of each project as at the reporting date)

6.2.2 All internal reports will be prepared by the Head of Finance and approved by the Head of Organization before submission to the Governing Body.

6.3 Donor Reporting

6.3.1 Financial reports to funders will be prepared in accordance with the funding agreements with the donors.

6.4 Investment Reports

6.4.1 Each month the Head of Finance shall provides to the management and the Finance Committee, a list of investments to indicate any with validations expiring in the next month so as to facilitate the investment decision vis-à-vis validation periods of investments.

6.5 External Performance Reporting

6.5.1 The Governing Body shall fix the performance indicators on an annual basis for the Organization.

6.5.2 These indicators can be both Financial (growth in free reserves and grants etc.) and/ or operational (e.g., system automation, improved processes etc.)

6.5.3 The Head of the Organization shall report to the Governing Body on regular intervals, the progress on performance indicators.

Section 7. Budgetary Controls

7.1 Policy

The objective is to develop an annual financial budget that provides for the funding and other resources requirements for planned activities for the year, and in case of projected budgetary deficits, mitigation measures are planned well before the year starts.

7.2 Budget Preparation

- 7.2.1 The annual budget preparation will be a two-step process. The first step would involve development of overhead budget and the program budget for on-going projects. In the second step, budget will be compiled to arrive at the Annual Budget of the Organization.
- 7.2.2 The overhead budget will be for core and administration requirements and will be prepared by the Head of Finance & Account Unit on an annual basis.
- 7.2.3 Program budget will be prepared for ongoing projects having financial commitments and/or have fresh funding requirements for the coming year.
- 7.2.4 An overall budget for the organization will be prepared by compiling various project budgets and the overhead budget.
- 7.2.5 Overall project budgets and core budgets will be broken down in the monthly activities and will identify each and every cost planned to be incurred during the budgetary periods.
- 7.2.6 All budgets will be supported by detailed supporting schedules and will also outline the assumptions used in preparation of the budget.

7.3 Activity Based Budgeting

- 7.3.1 Budgets will also be prepared for each activity conducted under any of the projects and duly approved based on the authorization matrix. Expenses incurred under a specific activity should be within the overall budget limit even if there are variations within line items.

7.4 Review and Approval of Budget

- 7.4.1 Budget will be prepared on an annual basis and the responsibility for its preparation will rest with the Head of Finance & Accounts Unit who will prepare the overall budget in consultation with other department /program /project heads.
- 7.4.2 The Head of the Organization shall review the budget and submit to the Finance Committee who would present the annual budget to the Governing Body for the final approval.
- 7.4.3 The Budget preparation and review process should start at least two months before the new financial year starts and should be approved by the Governing Body preferably before the beginning of next year.
- 7.4.4 Each program/department/ project head, and project coordinator will be supplied with a copy of its item-wise approved budget. Budget will incorporate functional and object classification.

7.5 Budgetary Control

- 7.5.1 Exercise of budgetary control will commence from the start of the first day of each year.

7.5.2 It will be ensured that program/department/ project heads maintain control over costs and as well as performance within the framework of approved budgets. Budgetary control will include variance analysis, corrective action and budget revisions.

7.6 Budget Amendments

7.6.1 As a matter of principle, the planning which supports the preparation of budgets is based on certain assumptions considered correct at the time they were made. The management must constantly review and administer the approved budget so that significant changes are identified and necessary amendments/modifications made in the budget document.

7.6.2 Management at all levels should always be alive to their responsibility to request amendments to the budgets as and when necessary.

7.6.3 Amendments may be of any of the following types:

- i. Change in total budget over a specified amount or percentage
- ii. Re-appropriation of budgets from one budget head to another without affecting the bottom line.
- iii. Offsetting inter-monthly changes without affecting the bottom line.

7.6.4 All amendments in the budgets will follow the same authorization workflows as at the time of approval of the annual budget.



Section 8. Banking & Cash Management

8.1 Policy

The objective of these procedures is to support the management in carrying out their fiduciary responsibility towards the organization and donors in a prudent manner.

8.2 Cash Management

This section describes the procedures to be followed by the Finance & Accounts Department (FAD) for receipts and payments of cash. The term "cash" for the purpose of this section includes legal tender, coins, currency notes, cheques, drafts, and pay orders etc.

8.2.1 Cash Handling Policy

- 8.2.1.1 All payments above PKR 5000 or more will be paid through crosschecks only (marked Accounts Payee Only).
- 8.2.1.2 Cash Advances will be disbursed to permanent staff only for the field visits, minor procurements and payment of other minor operational expenses. An advances register (manual or automated) shall be maintained under this head.

8.2.2 Petty Cash Policy

- 8.2.2.1 Petty Cash will be maintained by the Finance & Accounts Department.
- 8.2.2.2 Maximum limit for petty cash is PKR 10,000, which shall be replenished on need basis periodically on a given day.
- 8.2.2.3 The maximum limit of the amount that can be reimbursed through petty cash is PKR 5000.
- 8.2.2.4 No personal advances will ever be given to anybody out of Petty cash.
- 8.2.2.5 Non-budgeted miscellaneous expenses that are not related to any planned activity are liable to be reimbursed from the petty cash.
- 8.2.2.6 Employees will submit their claims along with the original invoice.
- 8.2.2.7 The Departmental Manager will approve all petty cash disbursements in case it is related to the department as a whole or to the project manager, and provided it is directly related to the project.
- 8.2.2.8 For replenishment of the Petty Cash account, FAD will prepare a detailed statement of expenditure along with original invoices for approval of the Head of Finance.
- 8.2.2.9 A fidelity insurance and cash-in-transit insurance will be taken for employees who are normally engaged in cash handling.

8.3 Establishing & Administering Bank Accounts

8.3.1 Banking Transactions

- 8.3.1.1 Bank accounts will be maintained and banking transactions will be undertaken with the banks that are approved by the Governing Body and the branches designated by the Head of the Organization in consultation with the Head of Finance & Accounts.
- 8.3.1.2 The Head of Finance & Accounts will recommend a change in the banks/branches deriving from persistent unsatisfactory service of a particular bank/branch, or for a desire to close any of the dormant accounts.
- 8.3.1.3 In any case, the number of accounts will be maintained which are sufficient and consistent with the operating requirements.
- 8.3.1.4 FAD will retain custody of all blank cheque-books and requisition replenishment as required.

- 8.3.1.5 The bankbook system is divided between foreign currency transactions and PKR (Rupees) transactions.
- 8.3.1.6 All transactions will be finally recorded in the general ledger in PKR and foreign currency balances will be converted into PKR at the financial period ends. The conversion will be made at spot-rate and must mention the nature i.e., buying or selling, prevalent rates by the close of business on that day so that these foreign currency balances and related transactions may be properly reflected in the financial statements prepared in PKR.
- 8.3.1.7 Bank accounts will be operated by officials specifically authorized by the Head of the Organization on behalf of the Board.
- 8.3.1.8 As a rule, signatures of a minimum of two officials (one from FAD and the other from Operations) will be required to operate the bank account.
- 8.3.1.9 In order to ensure smoothness of operation, each signatory will have a back-up signatory.

8.4 Controls on Receipts & Payments

- 8.4.1 The organization can receive the remittances in any of the following manners:
 - i. Receipts through mail.
 - ii. Direct credits into the bank accounts including receipt of grants.
 - iii. Direct receipts by FAD through cross cheques, pay orders etc.
 - iv. Voluntary cash contributions received directly by FAD.
- 8.4.2 The particulars of all receipts, such as cheques, drafts, pay order etc, will be recorded.
- 8.4.3 All cash and its equivalent must be deposited in the organization's bank account(s) on the day of receipt during banking hours, except for late receipts which will be banked on the following day.
- 8.4.4 All employees receiving any money on behalf of the organization in any form are required to tender the money to the Finance & Accounts unit on the day it was received and during banking hours.

8.5 Disbursements – Payment through Cheques

- 8.5.1 Payments will normally be made through crossed cheques only.
- 8.5.2 Bearer cheques will be issued for an amount up to PKR 5,000. However, for replenishment of imprest, or for drawing cash for payment of salaries of some support staff who cannot maintain a bank account, or utilities bills that need to be cleared on the same day, bearer cheques may be issued for a higher amount.
- 8.5.3 Payments will be made against Authorization for Payment (AFP) (Annexure F).
- 8.5.4 The FAD Unit will receive AFP, duly signed and approved covering invoices (together with supporting documents) falling due from the concerned department.
- 8.5.5 The Accounts officer at FAD will check the voucher for approval; enter the details into the accounting system to generate an automated payment voucher (Annexure G).
- 8.5.6 The Head of Organization will approve the payment for further processing.
- 8.5.7 Accounts Officer will prepare a cheque for the amount and write the voucher number on the cheque counterfoil of the cheque-book, and send it along with supporting documents to authorized cheque signatories for signatures.

- 8.5.8 After the cheque is signed, FAD will either send the cheque to the payee through courier or will obtain acknowledgement on the copy of the cheque by delivering it to the payee.
- 8.5.9 Payment Vouchers will be numbered in a continuous/ single payment voucher series for all bank accounts. The name of the bank on which the cheque is drawn must be mentioned on the payment voucher.
- 8.5.10 Bank-book must be updated daily.
- 8.5.11 To exercise control, cancelled cheques, if any, must be retained in cheque-books after mutation.
- 8.5.12 All expenses recorded in the accounts ledger shall be charged to specific jobs (Cost Centers) divided into the following groups:
- i. Contracted Projects (against whom invoices will be raised)
 - ii. Overhead Cost Centers (various office tasks)
 - iii. Departmental Overhead Cost Centers
 - iv. Cost Pool (Common Organizational Costs)
- 8.5.13 All expense will be charged to specific Cost Centers and no booking shall be made without identifying the Cost Centers for it.
- 8.5.14 Certain expenses could be charged to the departmental overhead if they could not be associated with a relevant Cost Center.
- 8.5.15 All costs charged to a unit or department should only be charged with approval of the respective in-charge of the project/department.
- 8.5.16 All vendor payments shall be made within the number of days calculated as average O/S receivables days for the last month plus 15 days. Note: Normally all expenditure should be formally sanctioned and a sanction file should also be maintained to facilitate the audit rather than have the auditors to go through each and every case/file.

8.6 Bank Reconciliation

- 8.6.1 The FAD Unit will be responsible for preparing the bank reconciliation statements for every account maintained by the organization by the 5th of each month. For this purpose, bank statements received from banks will be sent directly to the person responsible for bank reconciliation.
- 8.6.2 The Head of Finance will review the reconciliations and shall initial the statements to evidence the review, investigate any discrepancies and unusual reconciliation items, and obtain satisfactory explanation for such items.

8.7 Investment Monitoring

- 8.7.1 In addition to maintaining bank accounts, the Head of Finance with the approval of Head of organization may place funds in short to medium term bank deposits investments subsequent upon a market survey, due diligence, and approval of the Finance Committee.

8.8 Restricted Fund Monitoring

8.8.1 If the organization receives restricted funds for restricted usage/purpose, FAD should report the status of such funds held by the organization and the nature of investments that has been done against these restricted funds.

8.8.2 Organization's cash balances together with the investments should always be more than the balance in the restricted funds.

Petty cash shall be kept in a secured and wall-fixed steel safe fully secured and fixed.



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Section 9. Procurement & Payment Procedure

9.1 Policy

- 9.1.1 All items with value equal to or less than PKR 10,000 will be purchased with the approval of the Department/ Project manager.
- 9.1.2 Items worth more than PKR 10,000 will need approval of the Purchase Committee. The procurement committee will consider if advertisement is required for the procurement of the goods/services. If yes, suppliers will send in quotations for the provision of the advertised good/services. Otherwise, request for quotations will be issued to three potential suppliers seeking quotations. Upon receiving the quotes, these will be evaluated on the Procurement Assessment Form for selection of qualifying supplier.

Purchase Order is mandatory for all purchases valuing more than PKR 5,000.

9.2 Payment Procedure for Goods

- 9.2.1 All invoices received at front desk will be logged in the daily mail register and Monthly Bill Tracking Sheet (Annexure H) and forwarded to Administration unit where it will be verified that all invoices bear the Purchase Order Number so as to ensure proper tracking of goods as well as the payments.
- 9.2.2 No payments will be made on invoices higher than PKR 5,000 not having PO numbers specified on them.
- 9.2.3 All invoices for the procurement of goods will be forwarded to the administration department.
- 9.2.4 Administration department will ensure that all necessary documents are attached (in case anything is missing, the invoice will be marked as such and the vendor informed accordingly).
- 9.2.5 Administration department will then forward the same to the FAD Unit, for payment.

9.3 Payment Procedure for Services

- 9.3.1 Invoices/memos received against service contracts at the front desk, will be logged in the daily mail register as well as in the Monthly Bill Tracking Sheet (Annexure H).
- 9.3.2 The invoices/memo will be forwarded to the respective departmental heads/project managers initiating the contract for approval of payment. Thereafter, the invoice/memo will be forwarded to Administration department to ensure that all documents are enclosed prior to disbursement.
- 9.3.3 Administration department will ensure that all necessary documents are attached (in case anything is missing, the invoice will be marked as such and the vendor informed accordingly).
- 9.3.4 Administration department will then forward the same to FAD for payment.

9.4 Payment General Procedures

- 9.4.1 Cheques prepared against invoices, will be handed over by FAD to the reception desk where it will be received on the Mail Register along with a receipt to be signed by the vendor while receiving the cheque.
- 9.4.2 At times the actual invoice amount varies from that mentioned on the P.O at the time of its issuance. Such cases should be referred by the Admin Department to the department/project

manager who had originally prepared the P.O so that s/he incorporates the changes along with the reason for the difference, and get it approved by the department/ project manager before handing it over to the Admin Department for further processing.

9.5 Procurement of Consumables Items (Supplies)

- 9.5.1 Consumable items with a value of less than PKR 5000 shall be included in the supplies.
- 9.5.2 Assets, which are not capitalized and have useful life of more than one year can be included in the inventory for supplies.
- 9.5.3 Purchases of consumable items whose value for quarterly purchases is more than PKR 5000 have to be brought into the inventory of supplies.

9.6 Good Receipt Note

- 9.6.1 Admin unit should ensure that Good Receipt Notes (Annexure I) is prepared against each and every delivery of goods.
- 9.6.2 GRN will be matched with the PO and attached with the AFP for payment processing.

9.7 Supply Requisition

- 9.7.1 Consumables shall be requisitioned on the Supply Requisition Form (Annexure J) by the end-user. Requisition will be made directly to the Administration Department.
- 9.7.2 Upon supply of requisitioned consumables, Administration Department will prepare the GRN to record delivery.
- 9.7.3 It is the responsibility of the Administration Department to ensure that all consumable items are available in stock at all times. The reorder level should be appropriately assessed according to the requirements.

9.8 Procurement Through Donor Funds

- 9.8.1 Procurement from donor fund is mandated in the donor agreement.
- 9.8.2 Program manager should share the Procurement Plan (Annexure K) for goods and services at the time of preparation of the working budget for the project.

9.9 Payroll Processing

- 9.9.1 Payroll shall be processed on a monthly basis.
- 9.9.2 Admin Department will submit a monthly statement of "Joiners and Leavers" (Annexure L) to FAD so as to report the particulars (demographic data, salary, grade/designation, date of joining/leaving) of both the new employees as well as of those whose term has ended with the organization.
- 9.9.3 Admin Department will also submit a monthly statement of "Earning & Deduction" (Annexure M) to FAD.
- 9.9.4 FAD will compile the payroll, which will be approved by the Head of Finance and subsequently by the Head of Organization.
- 9.9.5 Payroll payment processing will be carried out according to the procedures laid down in Section 8.5 "Disbursement".

9.10 Payroll Reports

9.10.1 Following reports will be prepared by FAD:

- i. Master Payroll (monthly)
- ii. Payroll Summary (monthly, quarterly, annual)
- iii. Payroll Reconciliation: Payroll in terms of head count and cost for the previous month reconciled with current month (monthly)
- iv. Tax deduction statements along with Challan matching of tax deposited.



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Section 10. Program and Project Accounting Process

10.1 Policy

To accurately record project and program costs to the appropriate program or project and to enable the management to ensure that sufficient resources are available to carry out program activities.

10.2 Advances from Donors

10.2.1 Advances are received from the donors to ensure adequacy of funds for program activities for an agreed period. Adequate portion of these advance payments should be recorded as “restricted funds”.

10.2.2 Restricted funds should be handled in accordance with procedures laid down in Section 8.8 “Restricted Fund Monitoring”.

10.3 Program and Project Expenses

10.3.1 Cost centers are the building block for the accounting system.

10.3.2 When a new project is contracted, relevant cost centers are created within the accounting system.

10.3.3 Costs are allocated to the appropriate programs or projects in accordance with the cost centers noted on the invoices when they are approved for payment.

10.4 Monthly Program and Project Reports

10.4.1 FAD will generate a Project Status Report (Annexure E) for each ongoing program or project.

10.4.2 The report entails details of the expenses incurred and grants received for the programs and projects to-date and during the month. This will be prepared on a cash basis and would clearly present sources and application of funds under major program budget heads.

10.4.3 Report will be sent to the project manager and a summary of the Project Status Report (Annexure E) will be sent to the Head of Organization.

Section 11. Fixed Assets

11.1 Policy

Fixed assets should be recorded, reported and safeguarded from unauthorized use, theft, and damage. Fixed assets need to be reconciled and tracked for internal and donor reporting on a periodic basis. All documents of titles to fixed assets should be retained for safekeeping.

11.2 Capitalization Policy

11.2.1 Assets that have a useful life of one year or more and a gross cost of PKR 10,000 or more should be capitalized as fixed assets.

11.2.2 As a rule of thumb, all Furniture and Fixture should be capitalized irrespective of the value.

11.2.3 Quantities of all items of capital and durable nature but involving nominal value and therefore expensed out, will also be entered into the "Non Consumable Inventory" register. Such assets will be physically verified once every year and by the Administration Department in order to maintain proper control over their custody.

Item	Description	Threshold	Remarks
Non-expendable	Items with unit cost of PKR 10,000 or more and useful life of more than one year	<i>Capitalize</i>	Maintain a formal inventory record
Non-expendable	Items with unit cost of less than PKR 10,000 and useful life, more than one year.	<i>Do not capitalize</i>	Maintain a memorandum inventory record
Consumables	Expendable items that are consumed, exhausted, or become an integral part of other property when put to use.	<i>Expense out</i>	Examples include office supplies, stationery and like items

11.3 Classification of Fixed Assets

Fixed assets will be classified into the following categories:

11.3.1 **Office Equipment:** This will include purchase price and other incidental charges such as handling and installation charges, and custom duties, freight in case of assets incurred on acquisition of generators, air-conditioners, photocopiers, and other scientific instruments such as cameras and audio-visual equipment.

11.3.2 **Computer & Accessories:** This includes purchase price and other incidental charges such as handling and installation charges and custom duties, freight in case of assets incurred on acquisition of servers and computers, printers and scanners, multimedia projectors etc.

11.3.3 **Furniture and Fixture:**Includes purchase price and incidental charges incurred on acquisition of furniture, lights, blinds, carpets, electrical work and the likes.

11.3.4 **Vehicles:**Includes purchase price and other incidental charges incurred on acquisition of cars, jeeps, vans and other automobiles, motorcycle etc.

11.4 Capital Budgeting

11.4.1 Capital (fixed assets) budgeting will form part of the overall project budgeting exercise to be carried out by heads of departments/ programs before the commencement of each year.

11.4.2 Fixed assets budget will be approved in accordance with the guidelines contained in the Section 7, "Budgetary Controls".

11.4.3 In the normal course, only fixed assets provided for in the capital budget will be permitted. However, should a department or a program require to purchase fixed assets not provided for in the budget, a request for the purpose shall be made to the Head of Organization who may or may not allow purchase of that particular Fixed Asset.

11.5 Identification

11.5.1 For purposes of exercising physical and documentary control, all fixed assets will be identified by a unique asset code (comprising alphabetic and numeric characters) indicating type and year of purchase to be assigned by the Administration Department.

11.5.2 As far as possible, asset numbers allotted will be painted, embossed or otherwise affixed on the assets so as to be conspicuous.

11.5.3 Asset codes will be developed using symbols and will indicate the following information:

11.6 Additions

11.6.1 Provisions in Section XX relating to requisition "Procurement of Goods" will be followed for procuring new assets.

11.7 Fixed Asset Records

11.7.1 A Fixed Asset Register (Annexure Q) will be maintained by the Administration Department.

11.7.2 FAD will record all purchases of fixed assets items in the fixed assets register on a monthly basis during the month-end closing routines.

11.8 Asset Transfers

11.8.1 User departments /programs/ projects will submit in writing details of excess assets in their custody to the Administration Departments.

11.8.2 Items will be termed/classified as 'excess', if there is no current or foreseeable use for them in the next 12 months.

11.8.3 Administration Department will compile the details of surplus assets and will review the fixed assets budget of various units and department/program/project offices in order to determine the likelihood of meeting the requirements through a transfer.

11.8.4 Transfer will be made through an Assets Return Form (Annexure R) which will be prepared in triplicate as described below and copied to:

- i. Transferee unit/program office
- ii. Transferor unit/program offices
- iii. Retained as book copy by the Administration Unit

11.8.5 The Administration Unit will update fixed assets registers for all transfers.

11.9 Disposal of Assets

11.9.1 All assets will be placed for disposal with prior approval of Head of Organization.

11.9.2 A reserve price will be established (by the Procurement Committee) for all assets placed for sale, after conducting a market survey from various vendors, which will be based on estimation of the asset's market value. This reserve price shall be determined by seeking a similar kind of asset available in the market at the asking market price by the seller. The Committee will share/decide the Reserve/Control Price among itself during the disposal process and keep it confidential till a decision is made on the sale of the assets.

11.9.3 For assets with a book value of PKR 100,000 or more, an advertisement will be placed in the newspaper with an invitation to inspect and offer a sealed bid. Provision for bid money in the form of a bank draft can be considered on case-to-case basis to ensure the seriousness of the bidder.

11.9.4 All submitted sealed bids (un-opened) should be submitted to Procurement Committee for maintaining transparency and confidentiality. Any envelope found pre-opened or not marked by the Procurement Committee, will be rejected.

11.9.5 The designated "Procurement Committee" will open sealed bids.

11.9.6 The committee after opening the bid can bring the reserve price down but it has to be a unanimous decision requiring approval of the Head of Organization.

11.9.7 The committee has the right to reject all or any bid(s) below the reserve price.

11.9.8 Committee members will sign all the documents as a proof of consent for checking sealed quotations.

11.9.9 Purchase Committee has the right to negotiate with the bidders for better price if the price is less than the reserve/control price or an approved revision thereof.

11.9.10 At least three valid bids are required for disposal of asset through the Asset Disposal Committee.

11.9.11 Conditional quotations will not be accepted.

11.9.12 Keeping in mind the cost effectiveness for disposal of assets, it would be ensured that the cost of advertisement should be appropriate considering the reserve price of the assets.

11.9.13 If the bids received are less than the reserved price then either the asset will be placed for re-bidding or the disposal committee will have the discretion to decide on an alternate mode of disposal (negotiation, re-advertising, open market, personal selling or etc.)

11.10 Physical Verification

- 11.10.1 Physical check of the entire inventory will be carried out once a year. This must be carried out in the presence of the custodian of the assets. All changes of location shall be recorded on the stock sheets, if not already done.
- 11.10.2 Whenever a person is leaving or a new person joins, the handing/taking over of all inventory items should be done by the Administration Department.
- 11.10.3 The fixed assets physical Stock Sheet will be prepared based on the data extracted from the fixed assets registers.
- 11.10.4 Person conducting the physical count will record the quantities per physical count, in the appropriate column provided on the physical count sheet. Persons conducting the physical count will also put their initials against each entry.
- 11.10.5 Following completion of the physical count, the completed sheet will be forwarded to the Finance & Accounts Unit for reconciliation. FAD would scrutinize all discrepancies and details of un-reconciled shortages or excesses will be forwarded to the Head of Organization for necessary action.

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Section 12. Periodic Financial Reporting

12.1 Month-end Close Requirements

12.1.1 At the end of each month, the organization closes its books. Following month-end procedures are performed:

- i. Cash (petty cash & bank) transactions reviewed, approved, and recorded.
- ii. Balance sheet accounts reconciled.
- iii. Grants received from donors recorded and reconciled.
- iv. Payroll and fringe benefits processed, approved, and recorded.
- v. Employees' advances are settled to the extent possible i.e., review to ensure all advances are current and collectible, and all overdue advances are deducted from employee's salary.
- vi. Expenses inspected to ensure that they are in compliance with the cost principles.
- vii. Transfers to and from field offices reconciled.
- viii. Financial reports prepared, reviewed and approved by the Head of Organization and distributed to the concerned staff and organizations.

12.1.2 FAD prepares the month-end reports as per Section 6.2.

12.2 Year End Procedures

12.2.1 Revenues/receipts and expenses/disbursements closed out in the general ledger and balance sheet items transferred to the next financial year.

12.2.2 Bookkeeper completes the analyses and reconciliations for the year-end.

12.2.3 Physical inventory of fixed assets is undertaken and reconciled to fixed asset records.

12.2.4 Applicable DONOR reporting requirements complied.

12.2.5 Sent out confirmation letters to all officers/employees with outstanding advances.

12.2.6 Financial and other management reports prepared and distributed to concerned staff.

12.2.7 Financial records, journals, ledgers, year-end financial statements prepared for the review of external auditors.

12.2.8 FAD instructs all departments to send their invoices within fifteen (15) days of year-end.

12.2.9 Accounts officer will create a new file for the new fiscal year, copies the old year data into it, and processes a change of the new fiscal year.

12.2.10 This sets up the New Year file with the old year data recorded as history.

12.2.11 When FAD receives final audit adjustments, the same are entered into the old year file so that it will print the same numbers as the audited financial statements when a report is requested.

12.2.12 This process retains full access to the old data in the old file while allowing normal activity in the New Year's file without waiting for the audit adjustments to be available.

12.2.13 At the completion of audit, all adjustments to financial records are made and audited financial statements distributed to the concerned people/organizations.

12.3 New Year Procedures

- 12.3.1 The bookkeeper continues with normal activity in the New Year including payment processing and payroll, and is able to print month-end reports in the normal way without any audit delay.
- 12.3.2 The Account Officer will enter the annual budget into the accounting system as and when information is available.



Annexure A: Chart of Accounts (Major Classes)

FIXED ASSETS

Land
Building
Improvements in lease hold Assets
Furniture & Fixtures
Machinery and Equipment
Computer & Accessories
12.3.3 Vehicles
12.3.4 Others

INVESTMENTS, DEPOSITS AND ADVANCES

Short-Term Deposits
Short-Term Prepayments
Advances to Employees
Advances to Employees - Official

GRANTS & INCOME

Contract Income-1

OTHER INCOME

Profit on Bank A/c
Gain on Exchange
Miscellaneous

PROGRAM EXPENSES

Program Expenses

SALARIES & WAGES

Salaries & Wages
12.3.5 Allowances
Taxes
Recoveries
Other deductions

TRAVELING, BOARDING & LODGING

T.A / D.A.
Transportation of Goods
POL
Conveyance Charges
Others

OCCUPANCY COST

Rent for Office Building
Rates & Taxes
Others

MARKETING & ADVERTISEMENT

- Advertising & Publicity
- Other Advertisements
- Seminars/Workshops/Conferences

REPAIR & MAINTENANCE

- R&M Vehicle
- R&M Equipment
- R&M Furniture & Fixtures
- R&M Buildings
- R&M Computer & Accessories

PRINTING & STATIONARY

- Stationery
- Printing
- Photocopying

COMMUNICATION

- Courier Services
- Internet Charges
- Mobile Charges

NEWSPAPERS, BOOKS & PERIODICALS

- Newspapers & Periodicals
- Uniforms

LEGAL & PROFESSIONAL

- Audit Fees
- Legal Counsel
- Others

UTILITIES

- Gas
- Water
- Electricity
- Telephone

REGISTRATIONS

- Vehicle Registration
- Registration & Affiliation
- Others

INSURANCE

- Vehicle Insurance
- Others Insurance

ENTERTAINMENT

- Entertainment & Gifts
- Kitchen Supplies
- Others



FINANCIAL CHARGES

- Bank Charges
- Interest / Markup
- Lease financial charges



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Annexure B: Month end Closing Check List

Description	Done by	Initials
1. Check that all expenses are adjusted / allocated to proper Cost Centers.		
2. Review the data entry for the month and check for following: - <ul style="list-style-type: none"> • Correct chart of account ID assigned. • Description of transactions correctly entered • Vendor ledger/Customer ledger balance is equal to the Trial Balance. • Payroll properly allocated to the Cost Centers as per time sheets. • Bank reconciliation reviewed and long outstanding reconciling items investigated. 		
3. Review allocation of overhead to the Cost Centers for the contracted services. Check and ensure that common costs and overheads amounts are allocated to the projects as per their salaries expense ratios.		
4. Prepare the inception to-date summary report for the contracted jobs showing allocation of Revenue, Direct Costs, Gross Profit and Overhead allocation.		
1. Prepare Cash Flow statement as per agreed format.	Agreed by whom?	
2. Prepare profit & loss account, variance analysis report and financial highlights report for the month.		
3. Give reasons where burn-rate for the projects is less than 50% while more than 30% of the agreed project time has elapsed .		
4. Ensure that all the Cost Centers have been created and project budgets entered against the Cost Centers.		
10. Ensure that operational budget for each project is available and entered in the system.		
11. Ensure that withholding tax (WHT) statement is filled electronically and WHT is deposited with the State Bank.		

12. Review and report receivables position especially with reference to those due for more than 45 days.		
13. Review and report fixed costs analysis for the last six months.		
14. Review overhead Cost Centers' ledgers and ensure that there are no transactions that could have been charged to contracted jobs.		
15. Glance through the current month's filling of the documents and see that all the documents that were generated and/or received under year class/type are duly filled.		

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Annexure C: Year end Closing Check List

Description	Done by	Initials
1. All revenues/receipts and expenses/disbursements closed-out in the general ledger and balance sheet items transferred to the next financial year.		
2. The bookkeeper completes the analyses and reconciliations for the year-end.		
3. Physical inventory of fixed assets undertaken and reconciled to fixed asset records.		
4. All applicable DONOR reporting requirements are complied with.		
5. Confirmation letters to all officers/employees with outstanding advances sent out.		
6. Financial and other management reports prepared and distributed to concerned staff.		
7. Financial records, journals, ledgers, year-end financial statements prepared for review of external auditors.		
8. FAD instructs all departments to send their invoices within fifteen (15) days of year-end.		
9. Bank Reconciliation year-end should incorporate reversing stale dated or cancelled o/s cheques		
10. Perform physical count of inventory and prepare lists as at year-end.		
11. Ensure filing is complete (i.e., make sure each paid invoice is in it's respective vendor file and paid date-wise)		
12. General journal entries, and back-up should be filed date-wise.		
13. The Accounts officer will create a new file for the new fiscal year, copy old year data into it, and process a change of the new fiscal year. Hence setting up the New Year file with old recorded as history.		

14. When FAD receives final audit adjustments, the same are then entered into the old year file so that it will print the same numbers as the audited financial statements upon a report request.

15. This process retains full access to the old data in the old file while allowing normal activity in the New Year file without waiting for the audit adjustments to be available.

16. At the completion of audit, all adjustments to financial records are made and audited financial statements distributed to the concerned people/organizations.

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Annexure D: Authorization Matrix

#	Transaction Type	Limit	Authority	Sample Signatures
1.	Goods & Services – Assets			
2.	Goods & Services – Regular Operating Expenses			
3.	Goods & Services – Program & Projects Pre-approved against a Work Plan			
4.	Goods & Services – Program & Projects Not approved against a Work Plan			
5.	Signing Officers for contracts and other legal documents			
6.	<p>Signing Officers for Cheques - Any two of the following shall have authority to sign cheques and banking documents for the Organization:</p> <p><input type="checkbox"/> Head of Organization/ Board Member; or,</p> <p><input type="checkbox"/> Head of Organization / Head of Finance; or,</p> <p><input type="checkbox"/> Head of Finance / Project Manager</p>	<p>Any Payment</p> <p>Not approved against a Work Plan</p> <p>Pre-approved against a Work Plan</p>		

Note:

1. Each Project *Manager* shall be responsible for the preparation of a Work Plan, Budget and Cash Flow, by month, for the fiscal year and submitting their plans to the *Head of Organization/Finance Manager* for approval.
2. Each Project *Manager* shall, upon approval of the work plan, budget and cash flow, take management decisions and approve funds against their budget.
3. The *Head of Finance* shall “Approve” all expenditures for payment. In the case where the spending authority is the *Head of Finance* meaning that the expenditure was initiated by the *Head of Finance*, the *Head of Organization* will be the payment authority for those expenditures.
4. The above matrix only signifies the authorizing limits for further payment processing. As the custodian of funds under fiduciary responsibility, the Head of Organization /Head of Finance, jointly remain the final authority for ultimate discharge of the liability and can cancel/ withhold or alter the payment.

Annexure F: Authorization for Payment

Authorization for Payment (AFP)

AFP ID: _____ Date: _____
 Name of the Project: _____
 Project ID: _____ Project Manager: _____
 Donor: _____

Budget Line ID (BL ID)	BL ID Description	Invoice Description	This Invoice	Reported Expenses To-Date	Budget	Remaining Budget Over /Under	%age Utilization
Grand Total							

Comments:

Special Instructions, if any

Forwarded by

Approved by

Annexure G: Payment Voucher

[NAME OF THE ORGANISATION]			
PAYMENT VOUCHER			
Project ID:	Voucher No.:	Bank	
Project Name:		CHQ #	
		Date:	
Paid to			
A sum of Rupees			
Description	Amount	GL ID	BL ID
<div style="position: absolute; top: 50%; left: 50%; transform: translate(-50%, -50%); opacity: 0.3; font-size: 2em; font-weight: bold;"> Creative Approaches G A I D For Development </div>			
Rs. <input style="width: 50px; height: 20px;" type="text"/>	Prepared By	Approved By	Payee's Signature

Annexure J: Supply Requisition Form
Purchase Requisition Form

Date _____

SECTION I (TO BE FILLED IN BY THE REQUESTER)

SR. NO.	DESCRIPTION OF ITEMS	QUANTITY
12.3.5.1 PURPOSE/ACTIVITY		Project

Requester Name _____ Signature _____

SECTION II (APPROVED/VERIFIED)

SECTION III

Signature/Verification of delivery by the requester _____

Directions:

1. This request will be used only for requisition of consumable items.
2. The requestor will fill in the form and have it approved.
3. The request will be handed over to the Inventory In-charge, who will check for availability in the stock.
4. He will enter the stock card of the inventory for issuance along with the details.
5. On provision of the item to the requestor, the Inventory In-charge will get the requestor's signature on this form, recording delivery of the item.
6. The Admin/Inventory In-charge for record shall retain a copy of this form.

Annexure Q: Fixed Asset Register

Asset Register							
Year 200A-200B							
Item	Particulars	Qty.	Donor	Date of purchase	Historical value	Value July 1 st 20__	Value June 30 th 20__

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Annexure S: Fixed Asset Register

Asset Register							
Year 200A-200B							
Item	Particulars	Qty.	Donor	Date of purchase	Historical value	Value July 1 st 20__	Value June 30 th 20__

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A register of Commitments over a certain amount should also be maintained.



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