

Policies/Manuals for Finance & Administration of Humanitarian Action for the people of Afghanistan (HAPA)

Executive summary

This Financial Policy and Procedures Manual is developed to serve as a Financial Guide to all the members and management of Humanitarian Action for the people of Afghanistan (HAPA)

This is to provide guidance to all members and management on how to better manage the financial affairs and practices and ultimately operate in a safe, efficient and professional manner.

The manual will help all members and management operate with greater proficiency and professionalism and in so doing help them to cope up with an increasingly complex and competitive financial environment.

1. Requirements

1.1 For Funding:

The organization is funded by the donors and well-wishers i.e. corporate, government agencies and other non-government organizations around the world. The grants are given upon the approval of donors' contract of offer for the funding

1.2 For Reporting:

The reporting of financial performance is based on the requirements of the Cooperatives and Societies of Humanitarian Action For the People of Afghanistan (HAPA). The form of these statements must comply with Generally Accepted Accounting Practice or the International Financial Reporting Standards and International Accounting Standards, as approved by the HAPA and Different Donors

The Report includes:

- financial statements including an Income Statement, Statement of Financial Position, Statement of Cash Flows and Statement of Accounting Policies
- Non-financial statements (called a Statement of Service Performance) reporting on the achievement of the targets outlined in the Statement of Objectives approved by management and presented to the donors.

The annual report is subject to audit and audited accounts must be available no later than 4 months after the end of the financial year (31 December).

2. Organization Outputs

2.1 Organization Background

As HAPA is the implementing partner (IP) of all UN Agencies (UNODC, UN-WFP, UNHCR, UNICEF, UNOCHA and UNAMA) and international agencies (Jica, Cida , DAI , and IOM) had implemented many kinds of project during the mentioned years

2.2 HAPA Organization main purpose.

The Purpose of Humanitarian Action for the people of Afghanistan (HAPA) has is to help in every different fields with those Afghan people who have effected during war in the Last 3 decades in Afghanistan.

2.3 HAPA vision and mission.

2.3.1 Mission: To implement multi-sector emergency, rehabilitation, educational , agricultural , economical , social , reconstruction and development/capacity building projects which are designed to foster self-reliance, in addition to empowering Afghans to meet their future needs while creating the socio-economic condition that promote peace, stability and coherence.

As Afghanistan has very effected background in above every field since 3 decades so at meanwhile the main purpose of (HAPA) has is to help those Afghan people who have effected during the mentioned decades in Afghanistan

2.3.2 Vision: To eradicate poverty and human sufferings in Afghanistan.

3. Resource Allocation and Policy

3.1 Purpose

The purpose of this policy is to establish a link between the outputs in the organization's strategic plan and the provision of resources; to establish a link between funding based revenue generated donors and well-wishers and the resources allocated; and to allocate funds in the form of budgets for all operating and capital expenditure as stipulated in the contract of the funds.

3.2 Overview of Resource Allocation

The resource allocation system comprises:

- a budget round for every fund available
- a funding model to allocate funds to the necessary requirements
- a capital works budget for specific funding

3.3 Budgeting

The budgets should prepare budgets using a HAPA based approach. These should take into account the outputs of the organization approved by management and any objectives and performance targets set by the Director.

Budget submissions will be prepared in a standard format and will be debated by members prior to being approved by the Director.

3.4 Capital Expenditure

Capital expenditure budgets will be prepared in accordance to the funding or availability of resources for such expenditure

3.5 Relating Budgets to Income Earned

In order to establish a link between the funding an organization receives and the income it earns, expenditures will be classified according to funding status once actual year end results are known

3.6 Timing

The budget will be prepared from Expected duration of any planed project from Donor

3.7 Budget Approval

The Budget and the Budget Review will be approved by the Director after consultation from management/program. And will send to donor for approval the budget is prepared annually and is usually scheduled for duration of one project than and presented to the Director for approval. Prior to this it is considered by the management.

4. Funding Model

4.1 Funding Model Overview

The purpose of the funding model is to allocate resources as speculated in the in the funding contract and, the budget.

4.2. Financial Delegations

4.2.1 Overview

4.2.2 Financial Delegations Policy

4.2.3 Signing Organization Contracts

4.2.1 Overview

Financial devolution is a key feature of the organization's financial systems with considerable autonomy given to members to spend the budget. Delegations allow the Director to operate the business of the organization by allowing specific members' authority to expend funds

4.2.2. Financial Delegations Policy

4.2.1 Purpose

The purpose of this policy is to provide appropriate financial authority to management to expend their approved budgets.

4.2.2 Policy

4.2.2.1 Subject to specific organization policy, management is free to spend their approved budget for business related operating expenditure and capital expenditure in the manner that best achieves the objectives of the organization and, in the case of externally funded activities, meets the obligations in the contract between the organization and the external funding provider.

4.2.2.2 Budget allocations may be transferred from operating expenditure to capital expenditure or vice versa with the authority of the appropriate Director.

4.2.2.3 All expenditure must be business related and must be properly authorized. The management must approve all invoices that are to be charged against the budget.

4.2.2.4 All expenditure must be adequately supported by invoices and/or receipts.

4.2.2.5 *No staff member may approve reimbursement of their own expenditure. This shall be done by a higher authority.*

4.2.2.6 Signing Organization Contracts

Any contract between HAPA and any other organization must be signed by the Director and one members of Donor. If the other party requires more than three signatories, the management will decide which extra people to sign on such contracts.

5. .Financial Monitoring

5.1 Overview

5.2 Financial Monitoring & Control Policy

5.3 Reporting Systems

5.4 Recommended Report Analysis

5.5 Recommended Cost Centre Reports

5.6 Annual Reports

5.1 Overview

Accountability is a key feature of the financial systems. The budget is the financial plan for the project duration. It is essential to monitor actual progress against this plan to ensure that the desired fiscal result will be achieved. The organization has a monthly reporting and monitoring program to facilitate this. The monthly reports are the main tool of financial control enabling management to monitor income and expenditure against budget.

5.2 Financial Monitoring & Control Policy

5.2.1 Purpose

The purpose of this policy is to provide a framework for monitoring, reporting and controlling financial performance and incentives for good financial management and penalties for inadequate financial management.

5.2.2 Reporting

All financial performance will be measured against the budget.

management will monitor the financial results of the organization monthly and will take corrective action where necessary.

The Financial Controller will provide a monthly report to the Director and management.

5.2.3 Carry Forward Balances

Management is required to ensure that there is proper monitoring and control of carry forward balances.

5.2.4 Reporting Systems

The monthly reports are the main basis of financial control, enabling management to monitor income and expenditure and budgets.

5.2.6 Reports Available

The cash book/ ledger and vouchers and bank book summary is produced to check the incomes and expenditures for the month/duration. This is after reconciliation with the bank statement.

5.2.7 Report Format

Reports have the same format as:

- income
- less Expenses
- equals Surplus (Deficit)

- Exchange rate

5.2.8 What to look for in the reports?

All financial performance is measured against the budget (Organization and donors Policy). However the budget is a forecast of the future and it is inevitable that there will be variances on a line by line basis.

The key result is the bottom line of the expenditure budget and it should not be exceeded unless approval is given by the Director.

A common reason for variances is timing differences between actual events and the budget. It is accepted that timing can be difficult to predict. However it is recommended that management endeavor to apply some methodology to monthly budget splits rather than adopting the all too common practice of simply dividing the budget total by twelve.

5.2.9 Errors?

Where unexpected transactions appear in the reports they should be followed up to ensure they are correct and properly authorized.

Where errors are found, correcting journals should be prepared by the Financial Controller, HAPA Organization, with sufficient supporting documentation to enable the correction to be confirmed and processed.

6.Accountability, Internal Control and Audit

6.1 Overview

6.2 Accountability

6.2.1 External Accountability

6.2.2 Internal Accountability

6.3 Internal Control

6.3.1 Definition

6.3.2 Basic Principles of Internal Control

6.3.3 Internal Audit Recommendations

6.4 Embezzlement, Fraud and Theft

6.5 Internal Audit

6.5.1 Role

6.5.2 Independence

6.5.3 Access Issues

6.1 Overview

This chapter covers the forms of accountability, some comments on basic internal controls, and introduces the internal audit function.

Accountability requirements exist at several levels within the organization (internal accountability) and between the organization and external parties (external accountability). External parties include the Government agencies, donors, regulatory bodies and the public.

6.2 Accountability

6.2.1 External Accountability

The current empowering legislation for the organization is the Registrar of societies.

The two key reports are:

- Statement of Objectives
- Financial Statement

The Statement of Objectives, which forms a part of the annual Organization Profile, specifies the outputs produced by the organization and the financial performance achieved during the year.

The provisions relating to the annual report include:

Preparation of annual financial statements in accordance with *generally accepted accounting standards*.

The financial statements are to include:

- Statement of financial position
- Income Statement
- Statement of cash flows
- Statement of service performance reporting outputs produced against targets established in the statement of objectives
- Statement of accounting policies, commitments and contingent liabilities

A management statement including a statement of management's responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting

6.2.3 An audit report

The financial statements must be audited within end of project and or the end of the academic year.

The Charter, the Profile (including the Statement of Objectives), the basis for the organization's accountability to external parties. All three documents are available

6.2.4 Internal Accountability

The organization is governed by management, the constitution of which is set by the members of the management are appointed by various interested parties. The functions of managements are:

“To determine the policies of the organization in relation to the implementation of its charter, the carrying out of the statements of objectives and, the management of its affairs”.

“to ensure that systems are established for the co-ordination of, and accountability for, activities within the organization to ensure the responsible use of public resources”.

An internal system of financial accountability is hierarchical and follows the organizational structure. The budget provides targets for financial performance for which managers at all levels of the organization are accountable. The monthly financial reporting system allows comparison of actual results achieved with the budget. Any variances from planned performance are analyzed in a financial report from the Financial Controller to the Director and management.

6.3 Internal Control

6.3.1 Definition

Internal Control is defined by the HAPA of Chartered Accountants as:

"all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information."

6.3.2 Basic Principles of Internal Control

Internal controls are put in place to manage risk and hence to help ensure that the organization resources are used efficiently and effectively. Risks should be continually assessed and controls put in place which ensures that the risks are minimized. Internal controls will not eliminate all risks - to do so would create inefficiency - but the controls should reduce the risk to an acceptable level.

The system of internal control must include:

Training and Supervision of Personnel and Definition of Responsibilities:

It is essential that personnel are given clearly defined lines of responsibility and authority. It is also essential that personnel are trained and supervised in the tasks that they are asked to perform.

Adequate Segregation of Duties:

The ability to adequately segregate duties depends upon the staffing levels and circumstances of each cost centre. However, as a guide to best practice the following may apply:

- Separation of financial functions
- Separation of the authorization of transactions from custody of the related assets
- Separation of operating duties from financial record-keeping
- Separation of custody of the assets from maintenance of the related accounting records

Existence of Adequate Documentation and Records:

Compliance with the policies and procedures for the procurement of Value Added and the payment of accounts will help ensure that documentation is maintained to a suitable standard.

6.3.3 Internal Audit Recommendations

The organization's Internal Audit considers that the major financial controls that managers should be concerned with are in the areas of receipting, order/invoice authorization and the control of fixed assets and inventories.

The recommendations of best practice, which were approved by the Director, are:

6.3.4 Order/Invoice Authorization

- Orders should be completed for ALL purchases, both internally and externally
- All orders should be signed as authorized
- Orders should be filed sequentially with internal and external separated
- Invoices should be authorized for payment only after being referenced to the original order and ensuring that the goods/services have been received.
- management should review the order authorization and invoice authorization to ensure that they are segregated and not done by the same staff member.

6.3.5 Control of Fixed Assets and inventories

- Fixed assets are those items with a useful life in excess of one year, including computers. management should ensure these are listed in the organization's asset register with an adequate description and the serial number.
- All attractive assets should be engraved with the organization's name.

- management should regularly check the asset register listing (available from the Financial Controller) against the physical assets in the organization.

6.3 .7Embezzlement, Fraud and Theft

organization policies, procedures and systems ensure that the organization is publicly accountable for its assets. Organization assets are its buildings and property; equipment including motor vehicles and computing hardware and software; services and utilities, computing and telephone networks; consumables; and all income received by the organization, whether in cash or in kind.

It is the responsibility of all organization staff to ensure that organization assets are used only for approved organization purposes and that private or improper use of any organization asset does not occur. Embezzlement, theft or fraudulent or improper use of any asset constitutes serious misconduct and may result in dismissal and criminal proceedings.

6.4. 1 Internal Audit

6.4.2 Role

The organization management is responsible for ensuring that satisfactory systems of internal control are in place to ensure that the financial information produced is reliable, that organization assets are safeguarded and that the organization resources are used efficiently and effectively in achieving the desired outcomes of the organization.

One of the mechanisms for ensuring that these objectives are achieved is the establishment of an independent internal audit function. The Internal Auditor reviews accounting records, management information systems and other administrative policies and practices throughout the organization. The role includes the identification and recommendation of measures to achieve greater effectiveness, efficiency and economy and to remedy practices that expose the organization to undue risk and vulnerability.

The Auditor identifies practices that do not comply with organization policy, or with the requirements of external regulatory bodies. The Internal Audit Unit contributes to measures to prevent fraud and corruption.

6.4.3 Independence

To ensure that the functions can be carried out effectively it is necessary to ensure that the independence of the Internal Auditor is maintained. For this reason the Internal Auditor reports directly to the Director.

6.4.4 Access Issues

In order to carry out its duties effectively the Internal Audit Unit must have unrestricted access to organization records. In obtaining such access the unit will endeavor to provide sufficient notice of its requirements. Assistance may be requested from responsible parties, who should respond promptly to such enquiries.

7. Financial Accounting Systems Overview

- 7.1 *Introduction*
- 7.2 *Cashbook*
- 7.3 *Accounts Payable and Receivable*
- 7.4 *The general ledger*
- 7.5 *Fixed Assets*

7.1 Introduction

The financial software used by the organization is the open source Microsoft excel and word.

This is where most of the financial transactions are dealt with. It houses the following accounts;

- Accounts Payable
- Accounts Receivable
- General Ledger
- Purchasing and Asset

7.2 Accounts Payable and Receivable

The Financial Controller is responsible for the checking and processing of all organization Creditor and Debtor accounts including performing account reconciliations.

7.3 The general ledger

The general ledger summarizes all the accounts in the books of accounts.

7.4 Fixed Assets

A detailed list and history of all organization fixed assets is available on the work sheet.

8.Revenue & Receipting

- 8.1 *Introduction*
- 8.2 *Sources of Income*
- 8.3 *Cash Banking*
- 8.4 *Treatment of VAT on Receipts*

a. Introduction

A significant amount of income is derived from donors and well-wishers in the form of cash and cheques as well as direct debits. All this income is deposited into the organization's bank account. Issues relating to banking are covered in this chapter including the procedures to be followed in preparing for banking, the issue of receipts, special receipts etc

b. Sources of Income

8.2.1 Grants

8.2.2 Investment Income

8.2.1 Grant

The organization's main source of income is grants received from other non governmental organizations, and other . These grants are specified as specific and non specific. Specific grants are those grants that are given to the organization for a specific purpose. These funds are expended in line with the content of the contract for such funds. Non specific grants are those funds given to the organization for non specific expenses. These are expended according to the budget and in line with the statement of objectives.

8.2.2 Investment Income

Cash, surplus to monthly requirements, is invested in accordance with organization Investment Guidelines. A comprehensive cash management function is performed by the Financial Controller in conjunction with management to ensure that the optimum return is achieved from day to day cash management. The level of income derived is very dependent on interest rates and the cash flow patterns in the organization.

The management of the cash flow can have a significant influence on this income by ensuring:

- any sales are for cash not credit

- any invoices issued are processed promptly and paid on time
- banking of cash is performed regularly

c. Cash Banking

8.3.1 Introduction

8.3.2 Security of Cash on organizational Premises

8.3.3 Frequency of Cash Banking

8.3.4 Standard Banking Procedure

8.3.1 Introduction

Cash and cheques received by the organization as part of the day to day management of the organization. The receipts may result from fundraising or funding from donors and well-wishers. This section describes the procedures for collecting (receipting) and banking (organization's banking) cash and cheques.

The Financial Controller of the Chibolya Education and Health Organization is responsible for the administration and supervision of all organization banking.

8.3.2 Security of Cash on organizational Premises

- No individual can hold the organization's cash and cheques. One member of staff should be responsible and ensure that all monies are kept in a safe or lockable cash box secured in a locked cupboard or drawer with secure overnight storage. Cash should be counted out of public view.
- Where a member hold petty cash for cash requirements please contact the Financial Controller for any development concerning such cash.
- Where significant amounts of cash are likely to be collected appropriate security should be arranged to ensure the safety of staff.

8.3.3 Frequency of Cash Banking

- Banking should be done as soon as cash is received and where necessary all payments must be made direct to the organization's bank account

8.3.4 Standard Banking Procedure

There are 2 methods of banking:

8.3.4.1 through depositing in to the bank account

8.3.4.2 direct lodgement to organization's bank account

8.3.5 For banking through depositing

- Deliver banking to the Financial Controller who will check the cash and cheques and the validity of the deposit slip while the person depositing the banking is present. Then the deposit slip together with the cash should be deposited in the bank account and the copy of signed and stamped deposit slip should be forwarded to the Financial Controller for posting to the books of accounts.

8.3.6 For direct lodgements to the organization's bank account

- Deliver the banking to a branch of the any Afghan for deposit to the organization's bank account. Deposit slips for this purpose can be found at the bank.

Once the deposit has taken place, promptly send a signed and stamped copy of the banking summary form to identify the deposited credit to the organization's bank account.

8.3.7 On Receipt

- All cheques must be made payable to **HAPA** not any other name. The organization is the only payee for all inwards remittances. It is recommended that the organization obtain a stamp to cross cheques made out in person -
- Overseas drafts or cheques must NOT be stamped on the front and should be entered on a separate banking summary form. Overseas cheques in foreign currency will be converted to Afghanistan currency by the Financial Controller at the current day's exchange rates and the converted amount will be credited to the nominated debtor or ledger account.
- Note: overseas drafts/cheques must meet certain criteria in order to be banked.
- When paying in person, the payee should also put their name, local address and telephone number on the back of the cheque. This saves time in pursuing dishonored cheques should this occur.
- **Surpluses/deficits** - ideally there should be none but if these occur they are to be advised in the first instance to the management who will advise procedures.
- **Dishonored Cheques** - If a cheque is dishonored by the bank as "Refer to Drawer/Account Closed or Payment Stopped," the deposit entries will be reversed by journal and a copy of this and the cheque sent to the payee to obtain repayment - it is recommended this be in cash or a bank cheque.

9 Purchasing

9.1	<i>Introduction</i>
9.2	<i>Designated Suppliers</i>
9.3	<i>Legal Aspects of Purchasing</i>
9.4	<i>Competitive Purchasing Procedures</i>
9.5	<i>Competitive Tendering</i>
9.6	<i>Purchasing for Staff</i>

9.1 Introduction

All purchasing shall be carried out in accordance with the best practice of purchasing and in line with the budget, which have been approved by management and Donors. Below is a summarized procedure for all purchases.

9.1.1 Procedure

The organization requires goods to be purchased and raises purchase requisition

Approval by management, standard purchase requisition detailing exact requirements raised

9.1.1.1 Suppliers identified and chosen

For standard items – review standard supplier catalogues and identify most appropriate

For non-standard items or for orders in excess of preset limit obtain separate quotations and select the most appropriate

9.1.1.2 Raise order

- Match order to requisition and quotations
- Raise sequentially numbered order form

9.1.1.3 Receipt of goods

- Match receipts to purchase order
- Check quantity, condition and contents of each receipt
- Raise sequentially numbered Goods Received Notes and pass copy to accounts

- Pass copy Goods Received Notes to purchasing department
- Purchasing department matched Goods Received Notes to order and perform a regular review of unmatched orders and remind suppliers of unfulfilled orders

9.1.1.4 Supplier sends invoice

- Match invoice to Goods Received Notes and order
- Sequentially number invoices received
- Arithmetical checks on invoice calculations
- Invoices recorded

9.1.1.5 Payment to supplier made

- Supplier accounts are regularly monitored and beneficial discounts taken
- Cheques signed by three signatories responsible
- Cheques signed only upon sight of invoice
- Invoices stamped paid
- Supplier accounts promptly updated

9.1.1.6 Statements received from suppliers

- A person other than the purchasing staff performs supplier statement reconciliations and differences are promptly and correctly followed up

9.1.1.7 Monthly management accounts and reconciliations

- Reconcile purchase ledger to purchase ledger control account, cash book to bank statement
- Perform detailed variance analysis and investigate adverse and favourable variances
- Compare cash flow to forecast

9.2 Designated Suppliers

9.2.1 Organization departments shall utilize designated suppliers for purchases of specified Value Added.

9.2.2 Commentary

The organization maintains a list of designated suppliers for specified Value Added. Suppliers will be included on the Designated Suppliers List after due consideration to the following:

- Range of products/services supplied
- Location of offices/outlets
- Quality of product/service
- Ability to deliver on time
- Pricing of products/services
- Suitability of product/service to end user needs

A structured program will be operated within the organization to select suppliers for the Designated Suppliers List, monitor their continued suitability and usage, and replace them with more appropriate suppliers when necessary.

9.3 Legal Aspects of Purchasing

9.3.1 All purchasing must consider and comply with all relevant legislation.

9.3.2 Commentary

Organization purchasing must be conducted with due regard for the legislative environment. Relevant legislation includes,

9.4 Competitive Purchasing Procedures

The terms and conditions of all supply contracts must be periodically tested against the market.

Commentary

The implementation of this policy will ensure that the organization achieves the best prices available for given levels of service and quality. The process may range from obtaining competitive quotes to competitive tendering.

9.5 Competitive Tendering

Tenders should be called wherever the value of the goods or service exceeds 300\$ or the rule of donors.

9.6 Purchasing for Staff

9.6.1 No purchases on credit are to be made for or on behalf of individual staff members. Official organization order forms are to be used only for the purchase of Value Added required for the organization's purposes.

10 Payments / Accounts Payable

10.1 Introduction

10.2 Procedures

10.3 Cheques Payments

10.4 Reasoning Behind Payment Procedures

10.5 Petty Cash

10.1 Introduction

Creditor invoices will be entered in the Accounts Payable.

The main objectives of control over payments are to ensure that payments are made only in respect of valid transactions and that they are suitably authorized. The following control procedures will contribute toward attaining these objectives.

10.2 Procedures

10.2.1 Cheque payments

- Cheques should be raised only on the basis of authorization, for example a purchase invoice which has been suitably authorized.
- Cheques should be signed by people other than those who approve invoices.

- There should be two independent signatories for each cheque, for instance, two Directors might act as signatories. Signatories should inspect the documents supporting the cheque to ensure that the details agree. They should also mark the document so that it cannot be reused.
- Cheques should be restrictively crossed.
- Unused cheques should be kept in a secure place. Blank cheques should never be signed.
- Cheques should be under sequential control and all numbers should be accounted for.
- Spoilt cheques should therefore be retained.
- When cheques have been signed, they should be dispatched immediately.

10.2.3.1 Accountability

➤ General

One of the main drivers behind the current procedures is accountability. Accountability requirements exist at several levels within the organization (internal accountability) and between the organization and external parties (external accountability). External parties include the Government Agencies, other NGO and the public.

➤ Internal Controls

In order to achieve this accountability, an organization must have in place internal controls. Internal controls manage risk and hence help ensure that the organization resources are used efficiently and effectively. A major component of internal controls is the existence of adequate documentation and records. Such documentation and records would be invoices and receipts. The organization's external auditors specifically examine all aspects of internal control to ensure that such controls are in place and are adequate.

➤ Taxation

The other main driver behind the current procedures is taxation, .

10.2.2 Petty Cash

The following procedures should be followed when making a petty cash payment:

- Petty cash payments should be made only on the basis of suitably authorized vouchers, which should be under sequential control. Vouchers should be retained for subsequent references. Where independent evidence is also

available, for example invoices and receipts, this should be retained. Attach all receipts to the petty cash form in the same order as they are listed on the form

- An imprest system should be used to control petty cash. This means that the petty cash float is maintained at a specific amount and is reimbursed at regular intervals on the basis of vouchers showing the payments which have been made. It is suggested that the float should be kept at a level of 500\$ and be reimbursed on a weekly basis. Reconcile the petty cash by adding the cash on hand to the total expenditure on the request form. The total of these two amounts should equate to the total petty cash advance
- The petty cash float should be subject to periodic surprise counts by a responsible person not involved with the petty cash system. The balance in-hand should be reconciled to the imprest account by reference to the vouchers not yet reimbursed.
- The size of individual payments out of petty cash should be subject to a maximum to be agreed by the Directors.
- Staff should not be allowed to cash personal cheques or borrow from petty cash.

10.2.3 Invoices versus Statements

Payments to creditors will be made on receipt of approved invoices (not statements) addressed to the organization. An invoice must have a purchase order. A statement will summarize a series of invoices for a specific (usually monthly) period of time.

10.2.4 Reimbursement - Travel Costs

Reimbursement of work related travel costs should be calculated using the most cost effective means for the organization. This should be calculated by using either the cheapest equivalent, hiring a rental car, using the standard public transport service or reimbursing the staff member for mileage. Any reimbursement above these options will be taxable (subject to PAYE) in the hands of the employee.

11 Taxation

11.1 Value Added Tax

11.2 Source Deduction Payments

11.3 PAYE on salaries & Rent).

11.1 Value Added Tax

11.2.1 Background

11.2.2 Organization income

11.2.3 Organization expenditure - Claiming from invoices received

11.2.1 Background

This is the rule that Government of Republic of Afghanistan take from NGOs tax just from staff salaries and rent of Cars and office building

11.2.2 Taxation

is a Registered org for the purposes of Value Added Tax Registration imparts an obligation to charge VAT on Value Added provided by the organization (supplies - output tax). The tax is aimed at the end-user of Value Added and as such the organization is allowed to offset the VAT collected on outputs with the VAT it is charged on expenses (input tax).

11.2.3 Organization income – when to add VAT to invoices sent to customers

When invoicing a client you must distance yourself from the actual expenditure items and concentrate solely on the income and the nature of the goods or services you have provided.

11.2.4 Exempt supplies

these supplies are not subject to the provisions of the VAT act. Therefore no VAT is charged on these supplies

7.7.1 Organization expenditure - Claiming VAT from invoices received

Value Added Tax (VAT) be claimed on all invoices for expenditure providing a valid tax invoice is held for each transaction.

Valid Tax invoices - Rules of what must be included

For supplies

- We need to hold a tax invoice.
- It must state the words “tax invoice”
- It must include the name and VAT number of the supplier
- It must have a date
- It must include a description of the Value Added provided
- **Examples of expenditure that does not attract** Value Added Tax
 - Salaries
 - Wages
 - Bank fees
 - Supplies made from unregistered persons

11.2 Source Deduction Payments

11.3.1 Withholding Payments

11.3.2 PAYE

11.3.3 Allowances

11.3.1 Withholding Payments

A withholding payment is generally a casual payment or applicable where the relationship of the parties is not strictly one of employer and employee.

Certain types of payments are defined by Regulations as "withholding payments". Withholding payments are taxed at a special flat rate of withholding tax.

Important note: Earner Premium is not deducted along with withholding tax. Earner premium is calculated at the end of the year when the payee files a tax return. The Premium is the payee's responsibility.

11.3.2 PAYE

The organization deducts income tax from the salary payments of its staff in accordance with the PAYE (Pay as You Earn) tables set by the Government. The organization is legally obliged to deduct the correct installments and may be prosecuted or penalized for failing to observe the correct taxation requirements. PAYE deductions are not made from payments to independent contractors.

The organization pays PAYE deductions once each month

Staffs do not have to complete a form at the start of each tax year if their tax codes are not changing. The only employees who are required to complete a p18 form are new employees and those who want to change tax codes. Employees using a special tax code last year will have to re-apply each year if a special tax code is to be used.

Every month the organization is required to file details of every individual's payments and tax deductions including the earner premium amounts.

8. Bank Accounts.

12.1 Background

12.2 Reconciliation of Bank Accounts

12.1 Background

'all money received by [the Organization] shall, as soon as practicable after it has been received, be paid into the bank account of the [Organization].

To achieve this, the organization operates bank accounts here in Afghanistan with Kabbul Bank ,Azizi Bank and Oypubi bank national.

12.2 Reconciliation of Bank Accounts

The Financial Controller of HAPA organization is responsible for ensuring all accounts are regularly reconciled on a timely basis e.g. bank account - monthly