



HAPA Finance and Accounting Manual

July 2016.

INDEX

PART 1

FINANCIAL ADMINISTRATION AND CONTROL

INTRODUCTION

CHAPTER 1: ACCOUNTING POLICIES

CHAPTER 2: ACCOUNTING PROCEDURES

GENERAL

2.1 REPORTING BASIS

2.2 REPORTING CURRENCY

2.3 TIMELINESS

2.4 CHART OF ACCOUNTS

2.5 VOUCHERS AND SUPPORTING DOCUMENTS

2.6. MAIN OFFICE (KANDAHAR)

2.7. FIELD OFFICES

2.8 CONTROL DOCUMENTS

CHAPTER 3: FINANCIAL AUTHORITIES

3.1 CHEQUE SIGNATORIES

3.2 PAYROLL

3.3 EXPENDITURES AUTHORIZATION

3.4 RECAP TABLE OF PURCHASE PROCEDURES

CHAPTER 4: ADVANCES CONTROL

4.1 ADVANCES TO FIELD OFFICES AGAINST MONTHLY FUND REQUEST (MFR)

4.2 ADVANCES TO EMPLOYEES

4.3 ADVANCES TO FIELD OFFICES' JUSTIFICATIONS

4.4 ADDITIONAL RULES

CHAPTER 5: INTERNAL FINANCIAL CONTROLS

5.1 GENERAL

5.2 ACCOUNTABILITY AND RESPONSIBILITY

5.3 GENERAL TRANSACTION CONTROL

5.4 CASH AND BANK CONTROLS

PART 2

FINANCIAL ACCOUNTING PROCEDURES AND REPORTING

CHAPTER 6: RECORDING FINANCE AND ACCOUNTING TRANSACTIONS

6.1 GENERAL

6.2 VOUCHERS

- 6.3 SUPPORTING DOCUMENTS
- 6.4 CASHBOOK
- 6.5 JOURNAL
- 6.6 GENERAL LEDGER
- 6.7 DUAL ENTRY BOOK KEEPING
- 6.8 VOUCHERS – DIFFERENT TYPES
- 6.9 GENERAL CONTENT ON VOUCHER
- 6.10 ACCOUNT BOOKS TO BE MAINTAINED
- CHAPTER 7: FINANCIAL REPORTING
 - 7.1 GENERAL
 - 7.2 REPORTS TO BE PRODUCED
- CHAPTER 8: PAYROLL SYSTEM
 - 8.1 GENERAL
 - 8.2 PAYROLL PROCESS
 - 8.3 REPORT TO PRODUCE

PART 1

FINANCIAL ADMINISTRATION AND CONTROL

INTRODUCTION.

HAPA is a Nonprofit, Non-Governmental Organization contributing to the rehabilitation of Afghanistan.

The management of any organization requires tools for overseeing financial and operating activities, keeping track of liquidity and financial strength, and for closely following up field office requirements. A system is needed not only for accounting, but also for controls and estimated costs. The extent and setup of the operational and financial system is dependent upon the size, nature and requirements of the organization's management.

This manual has been designed for HAPA in order to handle efficiently and economically the overall activities of HAPA. Being a Nonprofit, Non-Governmental Organization, a special effort has been made to create an operational system which is self-sustainable and which aids the effectiveness of humanitarian and development activities that benefit the people of Afghanistan.

[1] HAPA uses the Quick book accounting software program on which its main books of accounts are maintained. The Admin & Finance Manager manages Quick book.

[2] The software can produce different types of financial reports: It is able to classify accounts using different criteria. It can produce overall financial reports. HAPA has elected to classify transactions according to the main office (KANDAHAR) and field offices.

[3] HAPA has developed its own Chart of Accounts, which closely resembles its operations.

OBJECTIVES OF THE FINANCIAL MANUAL.

The main objectives of this manual are:

- a) To establish a system of overall financial responsibility that will enable the efficient, economic and transparent operations of HAPA's activities.
- b) To establish a financial system that will produce complete and reliable figures and data, detailing the actual performance and use of the budget.

OUTLINE.

The manual is made up of nine chapters. The following is a summary of each chapter:

Accounting Policies. This chapter outlines the accounting policies, which HAPA has chosen to adopt. This chapter provides answers to questions such as: How do we value assets, by purchase price or current value? For example, how do we depreciate our vehicles – by reducing balance method, straight-line method, by two years, five years or ten years?

Accounting Procedures. These are the procedures, which have been laid down for HAPA staff to follow when making accounting transactions. This chapter details different types of vouchers, which are used to record each financial movement or transaction. The vouchers are paper forms, which are used to record each transaction, and each one has to have an authorizing signature. They are used as the source documents for entries into Quick book.

Authorizing Limits. There are certain staff members who have the authority to sign or make financial transactions. The Director has overall authority, and can sign for every transaction in HAPA. However, the Director also has the authority to delegate powers to staff members—usually the Admin & Finance Manager, the Operations Manager, the Admin & Finance Manager, the Provincial Coordinators (PC), but also the Program Managers (PM) and the head of departments.

Advances and Their Control. In order to aid the organization in functioning effectively and quickly, staff members need to be able to withdraw cash before they make transactions. For example, a staff member may request money before making an approved purchase in the bazaar. Additionally, staff may draw a personal advance—i.e. receiving their salaries (or part of it) earlier, before the end of the month. This chapter focuses on these advances and their control mechanisms.

Financial Accounting Controls. These are procedures and standards, which have been put in place to ensure security and prevent fraud. The goal is to make it very difficult or impossible for any transactions to take place without authorization and transparency.

Chart of Accounts and Account Codes. The chart of accounts is the list of all financial accounts maintained in the HAPA's accounting system. Each account has a title, called an account head or an account heading. The chart of accounts should be updated once a year, once the financial statements of HAPA are finalized,

Revenue Receipts. This chapter outlines how to handle any other receipts against revenue, which come from revenue-generating activities.

Recording Financial Transactions. Each transaction needs to be recorded on a voucher form and then entered into Quick book. This is an outline of the procedure to follow for conducting and recording these transactions.

Financial Reporting. The successful financial management of HAPA relies on simple but accurate periodic reports being produced for management. This chapter outlines the types of reports needed and the frequency with which they should be passed up the management chain in HAPA. The success of HAPA depends upon the Director and Admin & Finance manager making sure that this schedule is followed.

Payroll. This chapter outlines the procedures for managing and paying the salaries and wages of HAPA employees.

Foreign Exchange. HAPA holds banking accounts, and makes payments in US Dollars, Euros, Pakistani rupees and Afghanis. This chapter outlines the accounting procedures for making transactions between and among these currencies, and the procedure for handling fluctuations in the exchange rate(s).

CHAPTER 1: ACCOUNTING POLICIES.

CHAPTER 1: ACCOUNTING POLICIES

1.1 The following significant accounting policies have been adopted by HAPA and are applied consistently in the preparation of the financial statements of the organization.

1.2 Assets.

Assets are resources with an economic value that an organization owns or controls with the expectation that they will provide future benefit. There are balance sheet items representing what a firm owns. They always result from a prior event or transaction. Assets are expressed in money, or are convertible into money, and include certain deferred charges that are not resources (e.g. deferred moving costs).

1.3 Fixed assets

Fixed assets are assets which are purchased for long-term use and are not likely to be converted quickly into cash, such as land, buildings, and equipment. They are capitalized in the balance sheet.

The most common way to treat the fixed assets for an accounting standpoint is to depreciate each asset individually over its life time. Another option would be to operate assets pools, where a pool is depreciated by a set percentage each year, and new assets are added to the pool with their purchase value. A third option (which is the one HAPA adopted) is to capitalize a fixed asset and to fully depreciate it the first year of acquisition (considering that the item was purchased and used for a specific project).

Like other similar organizations, HAPA capitalizes its fixed assets only when the purchase price is higher than 10,000 AFA, or 200 USD.

A proper fixed assets register is also maintained, which includes all assets, even if they do not have financial value on the balance sheet.

Physical Verification of Assets.

A physical verification should be performed at least once a year in order to reconcile the items listing in the fixed assets register and the items recorded in the accounting system.

1.4 Foreign currency transactions.

a. Initial recognition.

Foreign currency transactions are recorded initially in the original currency, using the exchange rate prevailing on the date of the transaction. HAPA uses the monthly exchange rates published on the official website for recording foreign currency transactions incurred in the respective month.

b. Reporting on subsequent balance sheet dates.

Monetary assets and liabilities listed in foreign currency are reported in the financial statements using the closing rate on the balance sheet date. Examples of monetary assets are: cash in hand, cash at the bank, advances given to employees, any other loans given or received from other agencies. Non-monetary assets and liabilities are reported in the financial statements using spot rates at the time of the creation of the assets and liabilities. Thus no translation gain/loss on such non-monetary assets and liability arise. An example of a non-monetary asset is stocks and stores.

c. Recognition of exchange gain and loss.

Exchange differences arising on the settlement of monetary items, or on reporting monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognized as income or as expenses in the period in which they arise.

CHAPTER 2: ACCOUNTING PROCEDURES

GENERAL

The present accounting system of HAPA is centralized. The majority of the financial records are kept in the main office (KANDAHAR), while some basic records are maintained in the other offices (field offices).

2.1 REPORTING BASIS

The existing accounting system enables multi-dimensional reporting. Activities are reported at the field level as well as overall.

2.2 REPORTING CURRENCY

The reporting currency of HAPA is the Afghani. Other currencies used are: Dollar and Pakistani Rupee.

2.3 TIMELINESS

The transactions should be kept on a chronological basis; i.e. all transactions should be recorded immediately after having taken place.

2.4 CHART OF ACCOUNTS

HAPA has a standard chart of accounts. The chart of accounts was established according to HAPA's activities and specific needs.

2.5 VOUCHERS AND SUPPORTING DOCUMENTS

Vouchers are the source documents on the basis of which transactions are recorded in the account books. They are prepared based on supporting documents, that should always be approved by the competent authority prior to the issuance of the related voucher.

2.6. MAIN OFFICE (KANDAHAR)

2.6.1 The main office (Kandahar) maintains complete account books, including cashbooks, bankbooks and ledgers for the main office but also receives, validates and stores these documents and information of the other offices (field offices). Some of these records are maintained manually and others in Quick book.

2.6.2 The accounting record of the main office includes main office data as well as data pertaining to each field office. Transactions incurred in the main office are recorded on a daily basis. Transactions incurred in the field offices are recorded on a monthly basis after the vouchers and summaries have been received from the field offices and approved.

2.6.3 Transactional Procedures. The following account books are maintained manually at the main office:

- a. Cashbook. Separate cashbooks are maintained for each currency to ensure control over the physical cash in all currencies.
- b. Bankbook. Similarly, separate bankbooks are maintained for each bank account.

2.6.4 Stores. When the activities are important enough and require the organization to store items, HAPA applies the same following store management procedures:

- a. Store Register. The main office maintains quantitative and financial records of each store item. A physical count of the items is processed at least twice a year in order to make sure that the store register is up to date.
- b. Stock Cards. In addition, stock cards are used to record the quantitative record of each store item. They are annexed to a store location, which describes both the quantity received in, the quantity issued out of the store, and the balance therein. However, stock cards are maintained for large size and relatively high value items only; they are not maintained for small items like soaps, stationery items, fuel etc.
- c. Goods Received Note (GRN). When items are received in the store, a goods received note (GRN) is prepared. A corresponding entry is made in the store ledger and stock card.

d. Goods Issued Note (or delivery note). When items are issued from the stores, a goods issued note (GIN) is prepared and entered in the store ledger and stock card.

2.7. FIELD OFFICES

2.7.1 HAPA operates through various other offices or field offices that have been established both for the controlling of their various activities as well as the timely reporting of financial and physical progress to the main office. In field offices, only necessary records are maintained. The following books are maintained manually:

2.7.2 Transactions incurred in the field office are recorded on a daily basis.

2.7.3 Transactional Procedures. HAPA applies the following transactional procedures at each field office:

a. Cashbook. Separate cashbooks are maintained in each field office for each currency to ensure control over the physical cash in all currencies.

b. Bankbook. Similarly, separate bankbooks are maintained for each bank account opened in the field offices, if any.

c. Cash Summaries. Monthly cash summaries are prepared in all currencies. These summaries are sent to the main office along with the original vouchers and supporting documents. A data file is prepared. This file is sent online to the main office along with a backup of Quick book software.

2.7.4 Stores. When the activities are important enough and require the organization to store items, HAPA applies the same store management procedures as in its main office.

2.8 CONTROL DOCUMENTS

2.8.1 Monthly Reconciliation:

Since data are processed both in the field offices and the main office, there is a need to have some control documents that ensure the completeness, reliability and accuracy of data. In order to achieve this objective, monthly reconciliations are made between the main office and the field offices. Such reconciliation is done by comparing summaries sent by the field offices with the main office's record maintained in computerized software. Any discrepancies found are investigated and corrected accordingly. Following this procedure, monthly reconciliations are made.

2.8.2 Cash Reconciliation.

After the vouchers received from the field office are entered in the accounting software, the relevant Finance Controller reconciles the closing cash balances reported by the software with the closing cash balance reported by the field office's monthly cash summaries. After reconciling the cash balances, the Finance manager signs the cash summary as proof that the cash balance has been reconciled and found to be correct.

2.8.3 Store Reconciliation.

A physical count of the items is processed at least twice a year in order to make sure that the store register is up to date. It is done in the main office as well as in the field offices. It is performed by the Logistic Officer, the Storekeeper and/or the FO, and is validated by the Head of Logistics (main office) or PC (field offices).

2.8.4 Bank Reconciliation.

A monthly bank reconciliation is prepared, in order to make sure that Bank statement and bank book is show the same amounts by reconciling the bank statements and bank book.

3.1 CHEQUE SIGNATORIES

Every cheque shall be signed by the Director and/or Deputy Director (in his/her absence), or by the person authorized by the Board of Directors on the standard letter of delegation.

3.2 PAYROLL

All Payrolls shall be checked by the Head of Human Resources (HR) and approved by Director. Field payroll shall be checked Finance Officer (FO), sent to main office and counter checked by Head of HR, Finance Manager and approved by Director.

3.3 EXPENDITURES AUTHORIZATION

3.3.1 Authorizations for expenditures

The requesting person (Requester) must request to the Logistics Officer to fill in the purchase request form. The purchase request form must be dated, with the name of the Requester, the name of the project or sector, the budget line of the provincial budget.

The PC of the field office endorses the purchase request before any cash is given by the FO of the relevant field office. The PC can endorse any expenditure that is included in the monthly fund request approved by the Director. The approval by PC of a purchase request means that:

- He has checked that the purchase request is included in the monthly fund request approved by Kandahar;
- He deems the expenditure necessary and at a reasonable cost.

2 persons should sign the purchase request forms: the Logistic Officer requesting the purchase and the PC. In the case of an expenditure not included in the monthly fund request, the FO must prepare an exceptional request; even if it is a mere re-allocation between budgets lines (see point b. exceptional requests). Prior approval from Kandahar is necessary in this case and reply delay is 2 working days. To commit recurring expenditures such as salaries, rent of building, registrations, etc... the terms of the contract (duration, price, specific conditions) must be validated by the Director in Kandahar before signature of the contract. Models of standard contracts are available in the admin reference file in every province.

3.3.2 Purchasing procedures

Case n° 1: For purchases amounting to less than 499 Afghanis

These items can be purchased without quotations, for instance, for a repair of flat tires or purchase of a plumber joint. Advances disbursed to staff for many « small expenses » (e.g.: advances given to drivers who leave for a 3-day trip) are submitted to a « purchase request » which details the total amount and is

endorsed like an expenditure of case n° 2, by the PC. *Case n° 2: for purchases amounting between 500 and 1,999 Afghanis.* These items can be purchased with a single quotation. In the case of a service (e.g. carpenter, plumber, mechanic), there is no need to establish a service contract; the bill detailing the service provided is sufficient.

Case n° 3: for purchases between 2,000 AFN and 349,999 AFN.

There is no monthly quotations list for the time being. The main reason is that suppliers prefer to issue quotations with a shorter period of validity. Purchases between these require that:

- 3 quotations (price estimates) must be taken in presence of purchase service and one responsible technical staff;
- The PC approves the comparative list of prices and endorses the expenditure by signing this list.
- The FO gives cash upon seeing the comparative list signed by the PC.
- This item is systematically included in the stock of the province.

In the case of a service provided, the same quotation procedure as described above must be followed. In addition, if the duration of the service is over one week, a service contract must be established. It is signed by Director only but the draft of the contract should be approved by the Head of concerned department, the PM and the Finance manager before Director's signature (by email correspondences for example).

Case n° 4: purchases for an amount between 350,000 and 1,000,000.

A minimum of 6 quotations must be established. The purchase decision, upon seeing the quotations, is made by a commission of 3 persons approved in advance by the Finance manager. In the case of a service provided, the same quotation procedure as described above must be followed. In addition, if the duration of the service is over one week. A service contract must be established. It is signed by Director only but the draft of the contract should be approved by the Head of concerned department, the PM and Finance Manger before Director's signature (by email correspondences for example).

The service contract comprises the following indications:

- Name of contracting parties (name and address of organization, name of representative for both supplier and HAPA);
- Location and duration of service;
- Nature of service, with description detailed as much as possible: financial result, expected quantities and quality, frequency of work;
- amount, terms of payment, calculation mode if the amount depends on the service supplied (ex: transported weigh, kilometers, worked hours...). The amount must clearly indicate what is included and what is not (ex: only labor force or also materials);
- the responsibility of the parties, including eventual assurances, compensation in case of lost or damage, payment of taxes or provision of official documents, modalities for cancelation or termination ;
- Eventually the name of the witness to attest the delivery or the service provision;
- Date and place of signature, and signature of the parties.

Example : a transport contract must include the place of arrival and departure, the distance, the nature and quantity of transported goods (weight and volume), the amount and its mode of calculation, the date and delay of delivery, as well as the responsibilities assumed by the transporter or HAPA in terms of taxes, the transport documents, the loading and unloading.

Case n° 5: purchases above 1,000,000 AFN.

The call for bid must be published in a local newspaper and made public in two provincial offices at least. Bids in writing, in sealed envelopes, are opened by a commission of 3 persons at least,

comprising a member of the direction (Director, Finance manager and Technical person) as well as the PM of Head of Department. The call for bid must be done at the international level for purchases above 3,000,000 AFN.

3.4 RECAP TABLE OF PURCHASE PROCEDURES

3.4.1 Table of purchase procedures

In order to remind the procedures of purchase, herewith the recapitulative table to be respected depending on the purchase amount:

Case	Purchase or service amounting to	Total Price/Items	Quotation Required	In case of service, is a service contract required?	Purchase commission?
1	Less than 500 AFN	YES	No quotation required	No	No
2	Between 500 and 1,999 AFN	YES	1 quotation	No	No
3	Between 2,000 and 349,000 AFN	YES	3 quotation	YES*	Commission 3 persons.
4	Between 350,000 to 1,000,000 AFN	YES	6 quotation	YES*	Commission 3 persons.
5	Above 1,000,000 AFN.	YES	6 quotation minimum, and publish national call for closed bids. Calls international call for closed bids of amounts above	YES*	Commission 3 persons.

			3,000,000 AFN.		
--	--	--	-------------------	--	--

* The draft of the contract should be approved by the Head of concerned department, the PM (if technical purchase or service) and then the Director should sign the original contract.

CHAPTER 4: ADVANCES CONTROL

HAPA is operating with several different offices, and the nature of its activities makes it necessary to issue advances to its employees and officers for travelling, purchases, etc. or to its field offices, for meeting there day to day expenses. A set of procedures has been laid down which should be followed whenever advances are issued. There are two broad categories of advances:

4.1 ADVANCES TO FIELD OFFICES AGAINST MONTHLY FUND REQUEST (MFR)

The following are some procedures laid down which must be followed in case field offices need funds for expenses:

a. The Finance manager in consultation with PC has the responsibility to prepare the cash requirements and to specify the time for money transfers. This will provide a better overview of the needs to be funded and, therefore, a better fund management.

b. When a money transfer is needed, the FO with the collaboration of PC should contact with HAPA's main office and explain the amount needed for the advance.

c. Finance manager should approve the advance form before the cash transfer. The money should be transferred

(a) Physically

(b) Via cheque

(c) By Changer

Safety of the cash shall be given top priority.

d. The total requested amount should never increase the approved amount of the field office and also should be a reasonable amount.

FO at the main office should prepare a bank reconciliation statement in order to control the utilization of the funds transferred to the field office and the funds generated through income generation activities.

4.1.1 MFR.

The Finance Manager at the main office sends the empty MFR to the FOs not later than the 20th of the previous month (M-1). The document mentions the total budget available for each program as of the first day of the month M. The budget available for the month M is the difference between the total budget and the sum of the current expenditures as of the first day of M-1 and the expenditures approved in the MFR for M-1. The FOs fill out the MFR based on the personnel's needs and requests (especially

Program Managers), and then send their MFR to the Operational Manager (OM) at the main office for approval. Once it is validated, OM sends the MFRs to the Finance department for final approval. Then, upon Director Approval, sends the final version of the MFRs to the field offices not later than the first day of the month.

In details, the preparation of the MFR should be as follows:

- Projects managers (PMs) send their needs for the following month to the FO, who centralizes them and adds the running costs of the office.
- MFR comprises project expenditures and running costs of the office. The budget lines from the provincial budget to which expenditures will be allocated must be disclosed.
- Fund requests are detailed by budget lines from the provincial budget, which correspond to donor budget lines.
- If an expenditure planned in the fund request of month m is not made, it must be included again in the fund request for month $m+1$. Thus, the remaining balance in cash (with changer or in the safe) will be deducted from the transfer of month $m+1$.
- The fund request also indicates the date and amount of transfer for the following month.

4.1.2 Exceptional requests

Exceptional requests (force majeure, unforeseen events, new project starting suddenly, etc...) must go through the same approval circuit as the MFR: person requesting, FO, area manager or PC, and OM. They can be made by radio or email, with the signed paper being sent in the next pouch.

The reply delay of the Deputy Director (Director in his/her absence) is 2 working days maximum.

4.1.3 Checking of fund requests

Finance Department in Kandahar controls the conformity of the request: comparison of request with available budget, checking of the nature of expenditure with regard to budget line. The Finance manager sends a reply at the latest on the 1st of the month: approval of all or part of the request (with explanations of any planned expenditures being rejected), and states the dates and amounts of transfers. This reply is sent by email.

Fund transfers are requested by the finance service, approved by the Director. In his/her absence, the Deputy Director will sign financial transfers. A hard copied of the approved MFR should be signed by the FO and PC and be kept at the field office.

4.2 ADVANCES TO EMPLOYEES

4.2.1 against official expenses.

The following procedures are used for official expenditure advances.

- a. The employee who requests the advance fills in the advance form. One advance form is used for each currency.
- b. The FO checks the advance summary sheet in the advance file to see if the employee has any outstanding advances. He then mentions any outstanding balance against the employee on the advance form. Usually an employee is not authorized to receive any advance if he/she has any previous balance outstanding.
- c. The form is then taken to the person authorized to approve the advance in main office / PC in field office.
- d. After approval, the FO pays the advance and the signature of the payee is obtained on the payment voucher.
- e. The advance form is given a serial number and filed in the advance file.
- f. The FO prepares

an advance summary sheet / register to track all of the non-adjusted advances. He/she updates the advance summary sheet / register whenever an advance is given or adjusted.

g. The transaction is then recorded in the account books under the employee's name.

h. After the employee incurs the expenditure, he/she prepares the expenditure report; FO then prepares a journal voucher.

i. The journal voucher is then taken to the authorized person to approve the expenditure. He/she signs the advance form and the expenditure summary form to mention his/her approval of the expenditure.

J. The employee then brings the advance form to the FO and pays back the remaining balance. In the case of over-expenditure, the FO reimburses the over- expended amount. The advance is then adjusted in the books.

k. If the employee exchanges the money from one currency to another and incur expenditure in both currencies, two advance forms are used: one for each currency.

L. An official advance can under no circumstances be used for personal reasons.

M. An advance should be cleared within one week.

4.2.2. Against salaries.

The general rule is that staff is not allowed to take out advances against their salaries. However PCs, Head of concerned departments or Head of HR may approve such advances against salaries in exceptional circumstances with written approval. Director only should also allow all the advances to employees. One-month salary may be advanced to an employee and should then be fully deducted from his/her salary. Advance cannot be paid two months in a row. For national staff, advances shall be given to employees in the currency in which they are drawing salaries.

In certain circumstances, the procedure will be to deduct a set amount from the employee's salary over a few months, upon Director's approval. A salary advance should not be carried over from one calendar year to another, unless the Director gives his/her formal approval.

4.3 ADVANCES TO FIELD OFFICES' JUSTIFICATIONS

4.3.1 At the end of the month

- PC signs the bills.

- With the bill must be attached the purchase request, the quotations if any and the stock entry slip if any.

- Bills are translated in English, and the allocation is indicated (project, budget line).

The FO sends the following information to the main office at the latest on the 5th of the following month (reception in Kandahar before the 10th of the following month):

- Monthly sending format that summarizes the monthly package

- A copy of cashbook for the month

- Original of the cashbox inventory at the last day of the month, signed by AFO and PC

- All bills, with purchase request, quotations, stock entry slip attached when required

- Originals of income receipts
- A list of non-justified advances (ongoing / open advances)
- Originals of receipts of fund transfers (changer receipts)
- Originals of money change slips
- Originals of contracts signed with a local donor
- Originals of distribution lists for in-kind contract (distribution lists of food for instance)

4.3.2 Recap of signatures on a bill

- Signature of the supplier
- Signature of staff (one or several) having made the purchase and the payment to the supplier
- PAID stamp of the AFO
- Director's signature

4.3.3 Bills

Bills must comprise the following components:

- Letter head of the supplier (name, address)
- Date of purchase / expenditure
- In the name of HAPA (and not the name of the staff or purchaser buying the item)
- Details of purchase (units, unit prices, total price)
- Checked total amount
- Signature and if possible stamp of the supplier
- Bills must be signed by the personnel doing the purchase
- If the supplier does not have letterhead bills, it is possible to use pre-printed bills of HAPA

4.4 ADDITIONAL RULES

4.4.1 Private Advances vs. Official Advances. Advances for official expenses should not have any influence on personal advances (against salaries). A clear distinction should be made between official and personal advances and both advances should be adjusted on separate basis.

4.4.2 Currencies of advances. Advance can be given in any currency. However advances given in different currencies should be recorded separately in the original currency (not the reporting currency).

4.4.3 Adjustment of advance for expenses. Advances given for official expenses can be exchanged into another currency. It will be reported to the Finance Department, stating the amount exchanged, the amount received, and the conversion rate. Support for the conversion must be attached to the expenditure form. Expenditure incurred in different currencies must be reported as such in the advance form.

CHAPTER 5: INTERNAL FINANCIAL CONTROLS

5.1 GENERAL

The need for internal control is common to all organizations. The term "internal control" refers to all means steps taken by the management to ensure that the organization (1) operates efficiently and effectively, (2) produces reliable financial information, and (3) complies with applicable laws

and regulations. In short, internal control consists of those measures designed to keep the business operating “on track”.

General guidelines for achieving strong internal control

- a. Establish Clear Lines of Responsibility. HAPA should indicate clearly the persons or departments responsible for such functions as receiving income, paying bills, and maintaining accounting records.
- b. Establish Routine Procedures for Each Type of Transaction. If the management is to direct the activities of the business according to plan, every transaction should go through four separate steps: It should be authorized, approved, executed, and recorded.
- c. Subdivision of Duties. Perhaps the most important concept in achieving internal control is an appropriate subdivision—or separation—of duties. Responsibilities should be assigned so that no one person or department handles a transaction completely from beginning to end. When duties are divided in this manner, the work of one employee serves to verify that of another, and any errors that occur tend to be detected promptly.
- d. Accounting Function Separate from Custody of Assets. Basic to the separation of duties is the concept that an employee who has custody of an asset (or access to an asset) should not maintain the accounting record for that asset. If one person has custody of assets and also maintains the accounting records, there is both opportunity and incentive to falsify the records to conceal a shortage. However, the person with custody of the asset will not be inclined to waste it, steal it or give it away if s/he is aware that another employee is maintaining a record of the asset(s).
- e. Internal Auditing. The objective of the internal auditors is to monitor and improve the system of internal control. Internal auditors test and evaluate the internal controls in all areas of the organization, and prepare reports to top management on their findings and recommendations.
- f. Financial Forecasts. A plan of operation is prepared each year, setting plans for each department and project of the Organization. Actual expenditures and incomes are compared with forecasted amounts each month. This comparison strengthens control because variations from planned results are investigated promptly.
- g. Competent personnel. Even the best-designed system of internal control will not work well unless the people using it are competent. Competence and integrity of employees are in part developed through training programs, but they also are related to the policies for the selection of personnel and to the adequacy of supervision.
- h. Rotation of employees. The rotation of employees from one job assignment to another may strengthen internal control. When employees know that another person will soon be taking over their duties, they are more likely to maintain records with care and to follow established procedures. The rotation of employee also may bring to light errors or irregularities.

I. Serially numbered documents. Documents such as cheques, purchase orders, and sales invoices should be numbered serially. If a document is misplaced or concealed, the break in the sequence of numbers will call attention to the missing item.

5.2 ACCOUNTABILITY AND RESPONSIBILITY

To ensure that all departments and staff members perform their functions in accordance with the rules and regulations of HAPA, and so that responsibility can be judged by the accountability process, the overall organizational structure of HAPA is responsible as follows:

a. The Board of Directors shall be the sole authority to make rules and regulations, approve annual plan statements, confirm the appointment of external auditors, appoint the Director for HAPA and provide and approve employment conditions for the HAPA staff.

b. The Director shall be the second highest authority, and will physically implement the activities of HAPA.

c. The Director of HAPA shall be responsible and accountable for all administrative controls of HAPA. To facilitate the smooth operation of HAPA activities, the Director has the authority to take all necessary steps to provide the platform for the smooth operation of HAPA.

d. Heads of Department, PCs and the Director shall be responsible and accountable for the activities under their jurisdiction.

5.3 GENERAL TRANSACTION CONTROL

All the financial transactions of HAPA shall be made in accordance with the Rules and Regulations of HAPA, and shall be supported by the authenticated documents: agreements, invoices, bills, receipts etc.

Payments & Receipts. As payments are the major part of HAPA's financial operations, all payments shall be supported by authenticated documents and approved by the concerned authorities with their authorized limits. The concerned authorities check that the payment is in line with HAPA' Strategic Objectives, and that the transaction in general makes sense. In case the payment transactions are not covered in the approved budget, prior approval of the Director shall be obtained.

Certain exceptional payments. Sometimes it may be very difficult to obtain a receipt for payment (such as purchase of fruits, vegetables etc.). The discretion of these payments shall be left with the authorized person; however, approving authority shall exercise a price control at the time of the adjustment of advances.

Vouchers and books. As already disclosed in Chapter 2, all the financial and accounting transactions of HAPA shall be recorded on vouchers, supported by documents, approved by the competent authority and then filed. From the vouchers, these transactions are then recorded in quick book.

These documents are the most important financial records of HAPA and shall be properly saved for at least five years before being destroyed. Also, all financial transactions should be scanned and properly backed up on an external hard drive.

Financial Statements. In addition to the monthly financial statements (for which a specific procedure is implemented), HAPA shall produce its annual financial statements, to be audited by a firm of Chartered Accountants to be appointed by the Board of Trustees. A specific annual closing procedure, prepared by Finance manager, shall be implemented and all tasks should be strictly followed, in a specific period of time.

5.4 CASH AND BANK CONTROLS

5.4.1 Cash

a. General Internal control over cash. Internal control over cash is sometimes regarded merely as a means of preventing fraud and theft. A good system of internal control, however, will also aid in achieving the other objectives of efficient cash management, including accurate accounting for cash transactions, anticipating the need for borrowing, and the maintenance of adequate but not excessive cash balances. The major steps in achieving internal control over cash transactions and cash balances include:

- i. Separating the function of handling cash from the maintenance of accounting records.
- ii. Restricting access; employees who handle cash should not have access to the accounting records, and accounting personnel should not have access to cash.
- iii. Preparing a control listing of cash receipts at the time and place the money is received. For cash sales, this listing may be a cash register type, created by ringing up each sale on a cash register. For cheques received through the mail, the employee assigned to open the mail should prepare a control listing of incoming cheques.
- v. Requiring that cash receipts above the normal cash level shall be deposited daily in the bank.
- vi. Making payments by cheque if possible. All the payments above 5,000 Afghanis should be done by check signed by Director, unless the vendor only accepts a payment by cash. In such case, the Purchaser will confirm by writing the vendor's refusal. For payments below 5,000 Afghanis, the Purchaser will always consider a payment by check as a first option during the negotiation. The only exception should be for small payments, to be paid in cash from a petty cash fund.
- vii. Requiring that the validity and amount of every expenditure to be verified before a cheque be issued in payment; separating the function of approving expenditures from the function of signing cheques.
- viii. Promptly reconciling bank statements with the accounting records on a monthly basis at least.
- ix. Wire transfers should be made as much as possible.

HAPA should apply the above rules as much as it can.

b. Cash Receipts. When cash/cheque is received, the HAPA Cashier (or FO if there is no Cashier) prepares a receipt slip in duplicate and gives one copy to the payer as a token of receipt. The

Cashier then prepares a cash receipt voucher (CRV) that is then checked and verified by the Finance manager and is approved by the Director in main office or PC in field offices.

c. Cash Payments. The following procedure must be followed to ensure payment control:

- i. Payments up to 5000 AFA can be made in cash (although the first option should always be a payment by cheque). Above this limit, payments should be made via bank transfers (Cheque). However, cash payments may be made over the stated limit if the supplier does not want to be paid by cheque. In such case, the Purchaser should confirm by writing that the supplier only accepts cash payment.
- ii. Cash payment must not be made before the concerned authorities approve it. In case of the main office, the Director will authorize the transactions; at the field office, the PC will do so.
- iii. The Cashier (or FO if there is no Cashier) prepares the cash payment voucher (CPV).
- iv. The FM then checks and validates the CPV.
- v. The concerned authority then approves the CPV.
- vi. Acknowledgement of the payee must be obtained on the payment slip, or in case of a firm, acknowledgement should be received on that firm's letterhead.
- vii. The Cashier (or FO if there is no Cashier) stamps as "PAID" all the bills at the time of payment.

d. Other Cash Controls. The following should be adhered to in all transactions:

- i. The Cashier (or FO if there is no Cashier) is the person responsible for keeping the cash in safe custody.
- ii. Cash should be kept in the safe, and the Cashier (or FO if there is no Cashier) is the only person to have access to the safe.
- iii. Cash receipts and payments should be entered promptly in the account books.
- iv. The Cashier (or FO if there is no Cashier) is responsible for making the daily reconciliation of the closing cash balance (as per the account books) with the physical cash in hand.
- v. The cash ceiling is USD 25,000 for the main office; it will be determined by the Director for field offices, considering that cash must be spent immediately after it is received; moreover a small amount can be kept in hand for office running costs.
- vi. FM always keeps the keys of the safe at the main office and gives them to the Cashier (or FO if there is no Cashier) when needed. In the field office, FO keeps the keys of the safe and handover the keys to PC whenever he is out of the office.

e. Cash Transfers. Cash transfers should be approved by the FM, upon field request. The cash transfers should be done through the changer, whom HAPA should sign a contract with. Changer should be paid only when the cash has been received by the field office.

5.4.2 Banks.

- a. Co-signatories Bank receipts. There should be at least two signatories for every bank account.
- b. The following procedure should be followed when receiving an incoming bank transaction:
 - i. Cheques received should be immediately deposited in the bank.

- ii. Bearer cheques should be crossed before being deposited into the bank.
- iii. When a cheque is received and deposited in the bank, or a transfer is directly received in a bank account, the Cashier (or FO if there is no Cashier) prepares a bank receipt voucher (BRV).
- iv. A photocopy of each cheque should be attached to the BRV.
- v. Finance manager checks and verifies the BRV.
- vi. Finance manager then approves the BRV.
- c. Bank payments. The following procedure must be followed when making a bank payment:
 - i. A bank payment must not be made before an authorized person approves the payment. In the case of payment of expenditure, the Director at the main office is the person who approves payments. However.
 - ii. The Cashier (or FO if there is no Cashier) prepares a bank payment voucher (BPV).
 - iii. DDAF then checks and verifies the BPV.
 - iv. The DAF approves the BPV.
 - v. The acknowledgement of the receiver must be obtained on the payment slip, or in case of a firm, acknowledgement should be received on that firm's letterhead.
 - vi. A photocopy of each cheque should be attached to the BRV if possible.
 - vii. The Cashier (or FO if there is no Cashier) stamps as "PAID" all the bills at the time of payment.

PART 2

FINANCIAL ACCOUNTING PROCEDURES AND REPORTING

CHAPTER 6: RECORDING FINANCE AND ACCOUNTING TRANSACTIONS

6.1 GENERAL

The recording of financial transaction is an art, which provides a basis for the preparation and interpretation of financial information. To ensure that all the financial transactions are being recorded and that transactions are not omitted, irrelevant transactions are not entered in the financial/accounting record. A comprehensive accounting system needs to be enforced. The following overall controls are to be followed while recording transactions in the account books.

6.2 VOUCHERS

The vouchers provide guidelines for the accountants about the nature of transactions, the amount of the transaction and which account shall be charged for the transaction.

6.3 SUPPORTING DOCUMENTS

Supporting documents form the basis for the preparation of vouchers. They may be receipts of funds, payment of purchase invoices, payment of salaries and allowances, receipts and issues of stores, agreements entered into by HAPA with third parties, etc. Sometimes there may be more than one supporting document for a single voucher; in such cases; the total of the voucher shall be the sum of all the supporting documents. It is very important that the competent authority first approves all of the supporting documents prior to the preparation of the voucher. Any non-approved supporting document shall be excluded from the voucher.

6.4 CASHBOOK

A cashbook is a book used to record all cash transactions at the time of the receipt and payment of cash. The left-hand side is used for receipts of the cash (which is treated as a debit to cash) and the right hand side is used for payments of the cash (which is treated as a credit of cash). The cashbook shall be recorded by the Cashier (or FO in there is no Cashier) at the respective field office, after the following guidelines have been applied:

Receipts. The following procedure shall be adopted at the time of the receipt of cash:

- a. A cash receipt slip shall be prepared in duplicate by the cash receiving person, by filling out all relevant columns of the voucher.
- b. The amount shall be received from the payer, which shall be counted and acknowledged on the receipt.
- c. The original copy shall be given to the payer while the duplicate copy shall be kept on file.
- d. Entries shall then be made in the cashbook.

Payments. The following procedure shall be adopted at the time of payment of cash:

- a. The person paying cash shall prepare the CPV, by filling out all relevant columns.
- b. The amount in question shall be paid to the payee, and his/her acknowledgment shall be obtained.
- c. A CPV shall be allotted a serial number and then filed.
- d. Entries shall then be made in the cashbook.

6.5 JOURNAL

This book shall record all the journal vouchers at the respective field office. A journal voucher is a voucher that records internal transactions. Only an approved voucher shall be recorded in the account books.

6.6 GENERAL LEDGER

A general ledger is a book in which entries are recorded from the cashbook, journal vouchers, store receipts and issues vouchers. An individual account head is allotted a page in which the relevant entries on the debit or credit side are made. The general ledger is a complete record, which shall be maintained at the main office and all field offices. A trial balance shall be prepared by totaling periodically all the ledger accounts of the general ledger.

6.7 DUAL ENTRY BOOK KEEPING

Dual entry bookkeeping is a system of bookkeeping in which every financial transaction is recorded with a double aspect: debit and credit. This system of accounting shows how funds have been received by an organization and how these have been spent. Although there is no specific definition for debit and credit, debits are used for all left-hand side transactions and credits for right hand transactions. As a general rule, all assets and expenses can be termed “debit transactions“, and liabilities and income transactions shall be termed as “credit transactions”. As discussed above, there are four types of accounts for every organization, brief descriptions of which are appended below:

- a. Assets. Assets are all those valuable items owned by HAPA like cash, money deposited with the banks, materials, advances given etc. These are always recorded as debit balances.
- b. Liabilities. Liabilities are all those valuable items which are to be paid by HAPA like loans received, purchases made but not yet paid, expenses incurred but not yet paid etc. These are always recorded as credit balances.
- c. Income. This represents the money received or to be received in the future, either through sale of products, the performance of services or from donors for field offices. These are always recorded as credit balances.
- d. Expenses. When monies are spent against services or directly chargeable purchases, they are called expenses. Examples are salaries, travelling costs, printing and stationery etc. When received, stores are first recorded as assets and when issued are recorded as expenses. These are always recorded as debit balances.

A few transactions are appended below to guide the accountant in how to record transactions into debit and credit and what are assets, liabilities, income and expenditure.

<u>Nature of Transaction</u>	<u>Debit</u>	<u>Credit</u>	<u>Nature</u>
Funds received from donor.	Cash	Grant	Asset/ Income
Materials purchased for field office for a long period.	Stock	Cash	Asset/ Asset
Salaries or field expenses paid in cash.	Field/respective expenses	Cash	Expense/ Asset
Salaries or field office expenses not yet paid.	Field/respective expenses	Expenses Payable	Expense/ Liabilities

6.8 VOUCHERS – DIFFERENT TYPES

As mentioned above, HAPA is using several types of vouchers to record the financial transactions it is undertaking. A short description of each voucher is disclosed below:

- a. Bill (Invoice): this form is used for all transactions when there is no specific bill from suppliers
- b. Cash Inventory Form: this form is used for recording daily cash inventory either in USD, EUR, PKR or AFA
- c. Changer Follow up Form, only when reimbursement is scheduled to be done after more than 2 weeks
- d. Comparative Form of Materials: this Form is used for comparison of items from different suppliers
- e. Payment Sheet Casual Workers (attendance sheet): this form is used for payment to casual workers as daily wages
- f. Per diem Form: this form is used for staff per diem of HAPA employees according to HAPA's rules
- g. Price List Form: this form is used to compare prices of different commodities

h. Purchase request Form: this form is used for making any purchases according to HAPA procurement procedures

Summary Bill Form: this form is used to summarize several bills attached with this voucher).

j. Transportation Cost Request Form: this form is used for local staff travelling and transportation charges.

k. Advance Sheet: this form is used for advances to staff against expenses and/or salaries

l. Deposit Form: this form is used for other receipts, such as recovery of advances from employees, etc.

m. Cheque Form: this form is used to record payments and withdrawal of cash from the bank.

n. Transfer Fund Form: this document is used to record transfers between different banks, as well as cash withdrawals and deposits and also transfer to field offices.

o. Cash Receipt Voucher (CRV) and Bank Receipt Voucher (BRV) are used to record Cash Receipts and fund paid into the bank account respectively. They should include the funding source of the money received and the office/area to which it relates. They should be signed by the person receiving the money (usually the Cashier or the FO if there is no Cashier) and should later be checked and approved at the main office.

p. Cash Payment Voucher (CPV) or Bank Payment Vouchers (BPV) should be issued for all payments made in cash or through cheque from a bank account. . The BPV is used to record all payments made out from the Bank Account. Columns for fund, activity, sub-activity, financial codes, particulars and amounts are provided on the voucher that is completed on the base of the supporting documentation and from the information available

6.9 GENERAL CONTENT ON VOUCHER

It is very important that the following information pertains to all vouchers:

a. Numbers. For each journal, vouchers should be numbered starting at 1 at the beginning of each month. b. Date. The date that should be used would be the date on which the voucher is completed. This is important as much of the supporting documentation may arise from the transactions undertaken on different dates. The format to use is day/month/year.

c. Names. The name of the person paying the money (payer) or the name of the person receiving the money (payee) should always be printed on the voucher. Additionally, the voucher should be signed by the respective person in order to acknowledge receipt/payment.

d. Fund. As HAPA is maintaining separate ledgers for the various donors, it is important that information regarding the donor in question (who should be charged, or Who is receiving the money) is included in the voucher. This should be written in text, or by using the codes as per the chart of account.

e. Location. The system in use can also distinguish between the various areas/offices operated by HAPA, and it is therefore necessary that this information is included on the voucher.

f. Account Code. The financial codes segregate the nature of each transaction.

g. Particular. This section shall detail the nature of the transaction recorded on the voucher. A brief description shall be given about the transaction.

h. Currency conversion. As HAPA is operating in different currencies that are all converted to Euro, the conversion rate applied shall be mentioned in this column.

- i. Amount. The amount in words and figure shall be written on the voucher duly supported by the vouchers, bills, invoices etc.
- j. Detail. Any remarks in respect to receipt, payment or adjustment shall be recorded in this section.
- k. Prepared by. The person who is authorized for the preparation of the voucher shall enter his/her name on this place. Normally he/she shall be a Cashier, FO, storekeeper or any other person who is authorized to prepare the voucher.
- l. Receiver acknowledgment. When the money is either received or paid, the receiver acknowledgement shall be obtained on the respective voucher.
- m. Checked by. The person responsible must check that all the formalities for receipts and payments of cash have been completed, after which approval shall be granted by the competent authority. The person who checks the voucher shall apply the following checks:
 - i. The transaction is in the name of HAPA.
 - ii. The respective invoices, bills, etc. support the transaction.
 - iii. The invoices, agreement, bills etc. are in the name of HAPA and are covered by the objectives of HAPA.
 - iv. The total and cross total of the supporting documents are correct.
 - v. The amount in figures and words is reconciled.
- n. Approved by. The person who is authorized to approve the receipt and payment of the money must approve the voucher irrespective of the approval of the supporting documents. The approving authority must ensure that all the formalities for approving for the vouchers have been completed, especially that the voucher has been checked by the concerned person.

6.10 ACCOUNT BOOKS TO BE MAINTAINED

All Financial / Accounting records of the main office and the field offices must be maintained in the main office. For good internal control and for keeping track of all the expenses, the following account books are necessary to be maintained at all offices.

In the main office all of these records will be maintained in Quick book accounting software except the cashbook, which shall also be maintained manually. In field offices these books are maintained manually.

Main office

Cash / Bankbook in all currencies
 General Ledger
 Advance Register
 Fixed Assets Register
 Stock Register
 Payroll register

Field offices

Cash / Bankbook in all currencies
 General Ledger
 Advance Register
 Fixed Assets Register
 Stock Register
 Payroll register / Salary Sheets

CHAPTER 7: FINANCIAL REPORTING

7.1 GENERAL

7.1.1 An integral part of keeping a correct set of accounts is to report to the parties involved. This reporting process goes more than one way. It is important that information flows from the field offices

to the main office, and then from the main office to the Director, Board of Directors and Donors. It is also important that the main office reports back to the field offices in order to keep them updated on its activities.

7.1.2 An important reason for updating field offices on expenditure is to ensure that HAPA has necessary controls over its financial undertakings. It is important to keep in mind that

- Budgeting is the first part of this process;
- The flow of information the second;
- The reporting of accounts is third,
- While the analysis of actual spending compared to the budget is the final step in the process.

The accounting system can produce a number of reports that can be used for reporting to, and analysis of the main office, field offices and third parties (such as present or potential donors).

7.2 REPORTS TO BE PRODUCED

7.2.1 Various reports produced periodically by the Finance department are distributed to the Director, OM, Board of Management, PMs and to the PC of the field offices. The concerned authorities should make copies of the financial reports and check that their spending is within the budget and that all expenditures are correctly charged and allocated to the proper accounts. If any question about these reports arises, it should be addressed to the Finance Manager. The Finance department also prepares interim and final financial reports for donors as well. Below is a listing of reports that the Finance department prepares every month along with a brief description:

7.2.2 Reports Produced in QUICK BOOK. The following are easily printed from quick book:

a. Revenue, Expenditure Report. This report shows the monthly and year-to-date revenue received, expenditure paid and the fund balance of a field office at the end of any month. In addition, the annual budget and remaining budget [budget minus the year-to-date expenditure] can also be shown. This is prepared automatically by Quick book. This report can also be run to show all consolidated activity of HAPA. These field office reports are useful because they show the year-to-date activity of each field office, along with the budget for the year and the budget remaining after subtracting the year-to-date expenditure.

b. Balance Sheet. This report shows all of the assets, liabilities and cumulative fund balances of HAPA on a particular date. Assets that will be shown include: all of the balances in the bank, the cash on hand and the outstanding advances. The total funds to be received at the start of the year as well as the net change of the fund balance for the year will also be disclosed.

7.2.3 Reports Produced in Excel. All of the Excel detail reports need to be reconciled each month to ensure that the data are the same as the information recorded in quick book. Formats of each of the following reports are attached as annexes.

a. Monthly Financial Summary. This report shows: a detailed listing of all field offices, their fund balances at the beginning of the year, all revenue received for the year, all expenditures paid during the year, adjustments, and individual ending fund balances as of the end of each month. All of this information is added together to produce the overall total for all HAPA activities mentioned above,

and is shown on a monthly basis. The overall totals for revenue, expenditure and fund balances will be the same as in the consolidated totals in Quick book.

b. Summary of Revenue. This report shows a detailed listing of the revenue received for each project. Revenue is shown in local currency. This file also shows the remaining balance to be received, as compare to the budget.

c. Summary of Bank Balances. This report shows a detailed listing of all HAPA bank accounts and their balances at the end of each month. Foreign bank balances are converted into Euro at the official bank exchange rate at the end of each month. Monthly adjustments must be recorded in Quick book for any currency exchange gains/losses that have been incurred.

d. Summary of Activity in Each Bank Account for the Year. This report shows a detailed listing of all of the funds received in and paid out of a particular bank account for the year. A separate summary is prepared for each bank account.

e. Summary of Salaries Paid for the month. This report shows a detailed listing of the monthly salary that has been paid to each employee for each field. The overall summary shows the total monthly payroll that has been paid each month by HAPA.

f. Cash Reconciliation. All field offices should produce a monthly cash report listing the opening balances for cash receipts and cash payments (as recorded in the cashbook) as well as the closing balances. Furthermore, the FO in the presence of the PC should carry out a physical cash count on a daily basis. Any discrepancies must be reported to the main office. Appropriate action shall be taken and responsibility for the error shall be determined. Any differences shall be noted in the accounts.

g. Bank Reconciliation. At the end of every month, the main office must prepare a bank reconciliation statement to ensure that all bank receipts and payment recorded in the books correspond to the bank statements received. Any outstanding payment or receipt should be included in this reconciliation.

h. Budget follow-up. This file is issued by Finance; it provides the following information for each financial line: budget of the program, amount spent since the beginning of the program, budget available, forecast of the expenditures to be spent for the rest of the year. This file is discussed between Director, OPM, PM, Logistics and Finance. This file is useful to compare on a monthly basis the budgeted and the current expenditures.

i. Cash flow statements. Daily cash flow statement for Kandahar and Monthly cash flow statement are prepared at the main office in order to determine the cash available at Different times, the outflows and inflows as well; it allows the Finance department to estimate and Schedule the cash transfers between offices as well as the conversions between currencies.

CHAPTER 8: PAYROLL SYSTEM

8.1 GENERAL

All HAPA offices should maintain a payroll for permanent employees. The name, personal number, gross salary, deductions, net salary, related field office number and place for signature of the employee

should be stated on the payroll sheet. The payrolls are prepared by the FOs, then checked by the Human Resource department and the Finance department at the main office and approved by the Director.

The different contents of the payroll are described below:

- a. Employee Name. Full name of employee.
- b. Personal Number. Each employee should be given a personal number that should be written in the personal file of the employee.
- c. Salary. The basic salary is stated in the employment agreement, which should be in accordance with the general employment conditions.
- d. Allowance. Any allowances such as housing, rent, medical expenses etc. should be stated as per the general employment conditions.
- e. Gross Salary. This is the total of the basic salary plus any allowance.
- f. Employer contributions. These contributions concern medical insurance and severance pay and retirement and should benefit under specific conditions to the employees.
- g. Deductions. These are the deductions that should be made from the salary on account of advances, loans, Government Tax etc.
- h. Net Salary. Net salary is the gross salary minus deductions, which the employee is entitled to receive.

All salaries should be budgeted at the beginning of the year according to the established nominal roll. These salaries should be budgeted in accordance with relevant field offices. The administration as well as the funding source of each employee should be determined. This information should be recorded.

8.2 PAYROLL PROCESS

It is prepared between the 25th and 27th of each month. Tasks and responsibilities are clearly identified:

- a. FOs (field offices) and HR officer (main office):
 - i. To update the HR report
 - ii. To manage of staff database (new contracts, renewals, suspensions and terminations)
 - iii. To follow-up leaves and advances
 - iv. To generate the payslips
 - v. To fill out rubrics for payslips
 - vi. To print the payslips
 - vii. To prepare the control reports
 - viii. To close the monthly period
 - ix. To send data to the main office

These tasks should be completed by the 20th of the month.

- th b. Head of HR then controls and validates the data sent by the field offices (and Kandahar office for the staff in the main office).
- c. FM then approves the overall payroll and transfers the data for processing the payment of the salaries (not later than the 27th of the month) and to the Senior Accountant for the preparation of the monthly journal entry.
- d. Relevant data to be transmitted to the bank for payment of the salaries, after Director Approval.

8.3 REPORT TO PRODUCE

FOs (field offices) and HR officer (main office) are required to prepare some reports in order for the Head of HR and the FM to review on an efficient way the information provided.

a. HR Report

The HR report discloses all the monthly information needed to prepare the pay slips: change in contracts (new contracts, renewals, suspensions and terminations), the transportation and remote area allowances, the leaves follow-up, the overtimes... All the information in this HR report should have proper supported documents (presence sheet, leave requests...) that should be provided to Head of HR for review and approval.

b. Control variance salaries the objective is to understand the change in the salary from one month to another. For each employee, the objective is to compare several data (salary scale, level, basic salary, seniority, overtime, net pay) and explain any differences. If overtime is significant, an explanation will also be needed.

c. Leaves follow up

The objective is to have a proper file that shows the leave days acquired, taken, the days the employee did or did not work. This information is in HR Report.