

[2021]

# Hari Welfare Association

## FINANCE MANUAL

Approved in Executive Committee Meeting held on 15<sup>th</sup> July, 2021

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## 1 Introduction

Hari Welfare Association (HWA) is a Non-governmental organization. It was formed in 2002 and formally registered on November 12th, 2003 as social welfare organization under voluntary social welfare agencies ordinance, 1961 act Of Sindh. Through research, advocacy and lobbying HWA aims to promote economic, social, cultural, civil and political rights of peasants and other workers engaged in agriculture in rural areas of Sindh and Pakistan. It also aims to struggle for sustainable agriculture and opposes corporate driven agriculture transnational companies that are destroying rural people's culture and nature. HWA campaign for environmental, social, economic, civil, political issues, and challenges to the current landownership system and patterns that has deprived vulnerable peasants and put the rural agriculture environment at stake and destruction in the hands of corporate companies.

Vision:

Development of a progressive, educated, peace loving and non-discriminatory society that is materially optimum, socially equitable and sustainable.

Mission:

Collectively ensure environmental and social justice, human dignity, and respect for human rights of peasants so as to secure sustainable societies.

Objectives;

1. To advocate and network for economic, social, cultural, civil and political rights of peasants and other people and workers living in rural areas.
2. To build capacity of community organizations mainly peasants on self-resilience.
3. To advocate and networking for the protection of children from abuse, neglect, violence and exploitation.
4. To promote quality and gender sensitive education in the under-served areas.

The purpose of this manual is to outline the financial management procedures for HWA. The manual represents good practices for financial management and internal control, and should be followed by HWA internally. HWA aims to align itself or be compatible to the international society systems while improving its financial management skills. This manual will help HWA to:

- ✓ Record all financial transactions
- ✓ Monitor and control expenditures
- ✓ Satisfy statutory reporting requirements
- ✓ Ensure timely and accurate financial and management reporting to the donors

This manual provides an opportunity to disseminate the standard for effective financial management and internal control systems. It provides guidance about reporting systems and other relevant information related to funding management, cash flows, budgeting procedures, systems of approval etc.

The manual has been developed in a participatory way and through consultations between the Programs, Finance, Administration, and Personnel of HWA.

The manual will be updated on an annual basis with the lessons learnt through the implementation of financial procedures. It will be done in the form of additions and corrections proposed by the users of the manual after approval of the Executive Committee.

## 2 Overall Accounting Control

### 2.1 Governance

The Executive Committee is the legislative and supervisory body of HWA. It has the authority to approve and monitor all kinds of policies including the financial policy manual and revise it as required. The Board members of HWA have the authority to appoint a member only through election process in annual or extra ordinary board meeting.

The organization believes in participatory decision-making and operation of the organization. It has delegated the powers to the President to execute most of the major organizational decisions at the operational level. President is overall responsible to achieve the overall progress, management, financial management and stability and organizational objectives. President has to ensure transparency and accountability at all levels.

EC would have Quarterly Review Meetings with President to assess the performance of staff across the board as well as financial and programmatic progress. All the EC members would play their legislative / supportive role and will not behave as controllers and will not get involved in the management or petty administration of the teams. The key role of the Board is;

- I. Revision and approval of the policy after when and where required,
- II. Selection and appointment of Members,
- III. Support EC in fund raising and provide strategic guidance,
- IV. Review the financial and field performance on Quarterly / Biannual / Annually bases.

### 2.2 Internal Accounting Control

Internal accounting control consists of the plan of organization, procedures and records related to the safeguarding of assets and reliability of financial records. An effective internal control system includes the Cheque and balances required or the appropriate authorization and recording of transactions and ensures that access to assets is limited to authorized personnel. Each transaction should be divided into tasks that are completed by different individuals in order to increase the chance of detecting unintentional errors and preventing fraud. As an example, the person who approves vouchers for payment should not prepare it. Staff with physical access to cash, such as the petty cashier, should not record the receipt or disbursement of cash. The chart below includes other examples of the appropriate segregation of duties:

## Internal Controls

Sr. No.	Person Who	Should Not
1	Prepare Vouchers	Approve Vouchers
2	Prepare Cheques	Sign Cheque
3	Has Access to Blank Cheque	Post payments to the Ledger
4	Receive Cash	Record Cash Receipts and count
5	Is Responsible for the Physical security of Asset	Perform the physical inventory of Assets

Staff induction to the policies and procedures are also elements of our internal control System. For every transaction there are four (4) basic tests that are consistently applied – completeness, validity, accuracy and minuteness. .

### 2.3 Completeness

Each element of a transaction must be documented and recorded. For example: A cash payment to an employee requires the signature of the employee as evidence of payment.

### 2.4 Validity

- ✓ Is the disbursement to a verifiable vendor or employee?
- ✓ Is there tangible evidence, such as a receipt, purchased item or report that confirms that the item was received or the service performed?

### 2.5 Accuracy

- ✓ Is the amount recorded as received or disbursed correct?
- ✓ Are all-relevant charges recorded?

## 2.6 Minuteness

After a Cheque has been approved for payment and recorded, it should be impossible to make changes, such as adding a zero to the amount or changing the payee name, to be made to that Cheque. Close supervision is vital to ensure that control systems are working and that weaknesses will be identified and corrected.

## 3 Funding Sources, Financial Set-Up and Accounting Principles

### 3.1 Funds

Funds are the voluntary contribution from international and national donors and individual philanthropists through proper channel. To support HWA in implementing development programs as well as emergency response and relief operations. HWA policy is to develop a system for transparent use of these funds and report to the donor on timely basis. Project funds are kept in separate bank accounts in local as well as foreign currency (if required) with the title alike with project name.

The main source of HWA funds are comprises “Overhead Cost” charged from various donors and consultancy fee for various assignments. HWA also receives donations from philanthropist in local and foreign currency. HWA funds are maintained in local and foreign currency accounts with the title name of “HWA”.

### 3.2 Financial Set-up

Under the President Finance Manager/Head of Finance Department is responsible for financial operations in HWA with the finance staff in HO. The main role of finance department in HWA is to develop and maintain internal & accounting controls; maintain accounting record, prepare financial reports, provide technical advice to management and coordinate in external audits.

### 3.3 Accounting Principles/ Policies

#### 3.3.1 Accounting Years

The financial year of the organization is from 1 July to 30 June (12 months). The method of accounting use by the organization will be accrual and cash basis.

#### 3.3.2 Book Keeping

HWA accounting system is followed by International Accounting Standards of Global Accounting Practices. To be a modern organization in NGO Sector, HWA desires to increase the use of advanced information technology to function effectively and efficiently. Therefore, the book keeping of financial transactions in HWA shall be maintained with software accounting package. This software is capable to generate various kinds of reports as per management and donor requirements are;

- ✓ Annual Financial Report,



- ✓ Quarterly Donor Financial Report,
- ✓ Quarterly Budget Variance Analysis Donor wise,
- ✓ Monthly Financial Report ,
- ✓ Trail Balance.

### 3.3.3 Chart of Accounts

The chart of accounts are designed with digits numeric numbers ( for donor, for main expense, for sub. expense, for project location and for General Ledger), linked to program activity level in order to produce fair value of financial movements of the projects. Every project has unique activity code for entering the financial data into the system.

### 3.3.4 Books of Accounts/ Records

HWA keeps and maintains the following financial and accounting record:

- ✓ Vouchers (Payment, Receipts and Journal)
- ✓ Cash / Bank Book
- ✓ General Ledger
- ✓ Bank State Payments & Reconciliation's
- ✓ Fixed Assets Register
- ✓ Purchase Requisition
- ✓ Employee Contracts , Payroll
- ✓ Cheque Books
- ✓ Purchase Orders
- ✓ Contracts and agreements
- ✓ Trial Balance
- ✓ Financial Statements
- ✓ Tax Statements

And any other record and information considered necessary for the purpose.

### 3.3.5 Custody of Accounting Records

All the accounting records are kept in the custody of the accounts department in respective offices. The Finance Manager/focal person of finance ensures that the record should be kept in a way that it can be retrieve easily and quickly and adequate facilities exist for custody of such records. HWA keeps the record for a minimum of 5 years from the relevant year-end.

### 3.3.6 Safe guard of Accounting Data

Finance department is responsible for the proper safe guard of computerized accounting software and accounting data. For this, proper passwords are being placed on computers hosting the accounting software and on accounting software to prevent the unauthorized access. Finance Manager/focal person of finance has discretion to allow access in finance department for the use of accounting software.

It is the responsibility of finance department to take proper backups of the accounting data on daily basis. A monthly back up should be taken soon after the closing of month. The data should be properly stored at least on two devices and must be prevented from unauthorized access other hazards.

### 3.4 Valuation of Fixed Assets

HWA's operating assets are valued at cost less accumulated depreciation. HWA uses straight-line method to allocate depreciation over the periods by which the cost of an asset is divided by the number of years. However HWA uses annual depreciation charge formula by which a full charge is made in the year in which an asset is purchased and no charge is made in the year of sale.

Property, plant and equipment except for freehold and leasehold land shall be stated at cost less accumulated depreciation and any identified impairment loss. Freehold and leasehold land shall be stated at cost less any identified impairment loss.

Depreciation on these assets shall be calculated by applying the specified straight-line rates to the balances to write off the cost of assets over their estimated useful lives. Depreciation shall be calculated on annual basis.

Depreciation on additions shall be charged from the month in which the asset is put to use while no depreciation is charged from the month in which an asset is disposed off. In case where asset is purchased and disposed in the same month then the depreciation for the month shall be charged.

Major renewals and improvements shall be capitalized whereas normal repair and maintenance costs shall be charged to expense as and when incurred. Gain or loss, if any, on disposal of assets is included in current year's income.

The assets' residual values and useful lives shall be continually reviewed by the organization and adjusted if impact on depreciation is significant.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets shall be written down to their recoverable amounts.

An item of fixed assets shall be derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset

(calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognized.

### 3.5 Recognition of Revenue and Expenditure

HWA is using accrual and cash base accounting therefore all income and expenditures recognized in the period in which it occurred.

## 4 Procedure for Budget Preparation and Revision

### 4.1 Definitions

Budget is an estimation of cost involved in performing activities of the targeted results to achieve the goals and objectives of the entire program. In other words it is a financial plan for a project that expresses the cost of resources needed to implement activities in order to achieve an objective, and state their sources. It is a transformation of program activities in financial plan.

The budget is part of a good planning process. Budgets are used to help implement activities; calculate the estimated income and expenditures; co-ordinate activities; communicate plans; motivate staff by setting clear targets; monitor and evaluate performance of the project in particular and organization's management in general.

Plans and budgets need to be realistic in terms of what funds will actually be received and available (income) and in terms of what can actually be implemented (expenditure). Delivery of realistic plans and budgets improves organisational credibility and therefore donor confidence.

### 4.2 General Principles for budgeting

HWA use following principals while budgeting a project:

- ✓ Identify the objectives of the proposed programme/project;
- ✓ Identify the source and level of funding;
- ✓ Consider level of inflation and price hike;
- ✓ Careful analysis of external factors influencing a programme/project;
- ✓ Link the budget to activity level, output level and project level and divide into months/quarters/years;
- ✓ Consideration of salary increase and increments, insurance and fringe benefits.
- ✓ Budgeting within the framework of total programme/project funds available

### 4.3 Budget in Project Financial Management Cycle

- ✓ **Planning**

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Setting the objectives and deciding what this will mean in terms of income and expenditure, within the overall strategies of the programmes. The budget should be elaborate by HWA, and where relevant supported by the donor.

✓ **Monitoring**

Measuring actual income and expenditures against the planned amounts is known as financial monitoring. Financial reports/statements identify the differences between budgeted and actual figures. Good monitoring improve both project implementation in terms of realisation of project objectives and should prevent deficits.

✓ **Implementing**

Ensuring that sufficient financial resources exist for expenditures to progress as per the agreed plan.

✓ **Reporting**

Expenditure will be reported to donors against the budget, which is drawn from the plan and budget established during the planning process. Donor confidence will increased with sound reporting against budget hence the need for realistic plans and budgets.

#### 4.4 Project Budget Revision

Evaluating through a general review how closely objectives have been achieved and identifying new parameters for the project is known as budget revision. When differences between budgeted and actual figures are significant, Project Manager wants to insert any new activity due to some reason or if the activity cannot be completed within the activity budget, the budgets might need to be revised. Following conditions are applying during the budget revision.

#### 4.5 Budget approval/Authorisation

- ✓ Donor will approve the project budget and revisions as forwarded by the Chief Executive Officer.
- ✓ Excess of expenditures over the budget in particular activities can be authorized by donor in any percentage (in excess of 10%) if it does not exceed the limit of originally approved total budget for the project and if it is in line with planned activities.
- ✓ Any additional new activities or a budget line of a project should have to be approved by the donor.
- ✓ HWA operational budget and revisions if any will be approved by Chief Executive Officer.

## 4.6 Budget currency

The standard currency for budgeting is the local currency (Pak Rupees) as well as foreign currency of the donor.

## 4.7 Budget Format

Project budget will be prepared on the format provided by the donor, otherwise on any standard format available for this purpose will be used. HWA operational budget will be prepared on the approved format.

# 5 Banking Management

## 5.1 General

HWA is responsible to manage the programme/project funds in a secure, efficient and effective way. Every financial transaction should be documented and where possible should be from banking channel. HWA operates separate bank accounts for each project in Head Office level as well as in Regional Level. New bank account can only be opened with the approval of Executive Director of HWA. Regional office only has Local Currency bank account to meet the operational/administration requirement in the regional offices.

## 5.2 Need of Foreign currency accounts and operating procedures

Foreign Currency Bank Accounts are opened on the demand of the donor, for the purpose to transfer the project funds in foreign currency from donor account to project account for implementation of activities. However, local partner can further convert the funds from its foreign account to Pak rupees account for further disbursement.

HWA will also maintain its own foreign currency accounts for the following purpose:

- ✓ Unexpected Emergency Operations
- ✓ Overseas training, workshop and seminar expenses/reimbursements
- ✓ External Consultant Fee service fee
- ✓ In some cases payment of airfare etc.
- ✓ Overseas charity account.

## 5.3 Procedures for Opening Project Bank Accounts

Following procedures are applying for the opening of new bank accounts for the projects.

- ✓ Program section sends a request to Finance section of HO for opening separate bank accounts as per donor requirements.
- ✓ Finance Section prepare a mandate letter and complete the bank forms based on information provided by Program office and submit to president for executive

committee approval.

- ✓ President will put the request to Board for approval and give the mandate to the bank to open new bank account on the name of the specific project.
- ✓ The Finance section provide necessary documents to the bank along with mandate letter and coordinate with bank to get the process done.

#### 5.4 Procedures for closing Project Bank Accounts

- ✓ Finance section may after settling all the project obligations and receipts will prepare a mandate letter and submit to President for approval to close the project bank account.
- ✓ President will authorise the request and give the mandate to the bank to close the bank account and transfer the fund (if any) to HWA account.
- ✓ The Finance office will provide necessary documents to the bank along with mandate letter and coordinate with bank to close the accounts.

#### 5.5 Transfer of remaining funds of phased out projects

In the circumstances where the project has been phased out and the balance is laying down in the project bank account, the President can give approval to transfer the remaining funds back to the donor or transfer the funds to other projects in coordination with the project donor. If permitted by the donor president may approve the transfer of the remaining funds to HWA reserved account.

Whenever such transfer is made it must be notified to the donor through President and documented for book keeping purposes.

#### 5.6 Bank signatories

All project bank accounts of HWA will be operated with joint signatories with the approval of president. Any two of the following joint signatories can sign the cheques of HWA

- ✓ President
- ✓ General Secretary
- ✓ Treasurer
- ✓ Program Manager/Project Manager (if needed)

In order to change (add/delete) the authorised signatories of the bank accounts following procedures will apply:

- ✓ Finance Section will prepare a letter to issue and revoke the mandates of authorized signatories to President for Executive Committee approval.
- ✓ With the approval of Executive Committee, President will sign the mandate letter and send to Finance Section for further process.
- ✓ The Finance section will provide necessary documents to the bank along with mandate

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letter and coordinate with bank to add/delete the authorized signatories.

- ✓ The person whose name has been deleted will delegate with immediate effect after the approval of President.

## 5.7 Voided Cheque:

Cheques that are to be voided must be marked *VOID* in large letters across the front of the Cheque. Any signature on the Cheque should be blacked out or torn off. The actual voided Cheque should not be discarded but recorded and kept in the Cheque register.

## 5.8 Security

Cheque stock must be stored in a locked area or a safe with access limited to only authorize personnel such as senior finance staff. All cheques must emboss with project name. Cheque **MUST NEVER** be pre-signed and left blank to be filled in at a later time.

## 6 Transfer of Funds

### 6.1 Definitions

Funds requisition form is the summarized reflection of planned budget for activities that are going to be held in the following days/week/month. The Project Managers are responsible for providing the funds requisition form after making the plan for any project activity.

### 6.2 Fund Transfer Procedures

Following procedures will apply in order to process funds requisition for projects:

- ✓ Separate fund request will be prepared for each project and on activity basis
- ✓ Any team member of the project will prepare fund requisition, based on the approved/revised project budget on the most recent program plan.
- ✓ The request must be on prescribed form and signed accordingly.
- ✓ All necessary information of the project such as number of participants, rate of per diem to be paid, number of days, proposed venue etc should be provided in the request.
- ✓ The Project Manager/Coordinator will review the requisition and send it to regional finance section, at least 7 days before the tentative date of activity(s) by hand, e-mail or by fax, after signing it accordingly.
- ✓ Finance Manager will analyze the requisition in close coordination with the programme/Project Manager/Coordinator and put it before the president for approval.
- ✓ After approval the same will be forwarded to Head Office for release of funds.
- ✓ Funds transfers will take normal 5-7 working days time to be realized. However, in case of emergency (to be justified) it will take 3 working days to be realized.

### 6.3 Fund Transfers System

- ✓ Fund Transfer to Regional Office from Main Office:
  - Head Office finance section will prepare a fund transfer letter as per requisition and put it to President for Approval.
  - The approved letter will then be sent to the bank for transfer of funds from main project account to Regional Office project account.
  - Head Office will send information about the transfer to Regional office via e-mail and Regional finance section will make confirmation accordingly.
- ✓ Fund Transfer to Field Offices from Regional Office :
  - Field offices will submit the cash requisition request, dully signed by the field coordinator or any other designated authority, to Regional Office.
  - Regional Finance will analyse the data and confirm the outstanding balances of Field Offices.
  - Regional Finance will further coordinate with the Project Manager if needed and then present the request to Head of Region for approval.
  - Funds will be released to Field Office via bank transfer or directly by cheque/cash as convenient under the circumstances.

## 7 Payment Procedures & Authorization

### 7.1 Definition

Payment procedures are the guidelines for processing the payments through bank and cash and the authorisation is the given mandate to approve such transactions of financial activities.

### 7.2 Payment procedures

A duly completed Supplies/Services Request Form (SRF) is submitted to the admin section. The supplies/services are ordered through a quotation/tender process depending upon the nature of the required supplies/services. Quotations should be signed by the procurement committee to ensure that the sealed quotations are received.

A procurement committee is formed for each supplies/services procurement process having a value of more than PKR 50,000. After analysis of the comparative statement the supplier/services provider will be finalized by the procurement committee and its financial approval will be taken according to financial scheme of delegation. A Local Purchase Order (LPO) will be issued for the supply of all fixed asset items. It is mandatory to mention on the LPO that payment will be made within fifteen working days of receipt of the invoice and supplies/services.



Once the supplies/services have been received and verified by the receiving officer, a supplies/services received note is prepared. Thereafter, the invoice from the supplies/services provider along with all supporting documents will be processed by the admin section.

A duly completed Payment Request Form (PRF) will be prepared and attached to the payment documents by the admin section and approved by the relevant budget holder. This PRF shall bear a cross reference to the Supplies/Services Request Form (SRF), Local Purchase Order/Contract and Supplies/Services Received Note (SRN). All completed PRF along with supporting documents will be reviewed by the admin section and forwarded to the finance section. Documentation applicable for payment processing will vary with the value of the payment. Duly completed PRF will be attached along with the documents relevant to that payment as follows:

#### **7.2.1 If the payment is less than Rs. 50,000**

- ✓ Duly completed Supplies/Services Request Form (SRF);
- ✓ Original invoice submitted by the supplier/services provider;
- ✓ Completed Payment Request Form (PRF) along with all supporting documentation attached;
- ✓ Payment Request Form (PRF) shall be forwarded to the finance section along with the handing/taking note separately for cash and bank payments;
- ✓ Finance section shall process and clear the payment within five working days after the complete documentation is received.

#### **7.2.2 If the payment is more than Rs. 50,000 and up to Rs. 250,000**

- ✓ Duly completed Supplies/Services Request Form (SRF);
- ✓ At least three Open quotations with an invitation for request of quote mentioning complete specifications from the supplier/services provider;
- ✓ Comparative statement duly signed by the procurement committee with financial approval as per scheme of delegation;
- ✓ Copy of the Local Purchase Order (LPO)/duly signed contract copy;
- ✓ Copy of the Supply Received Note (SRN);
- ✓ Original invoice submitted by the supplier/services provider;
- ✓ Completed Payment Request Form (PRF) along with all supporting documentation attached;
- ✓ Payment Request Form (PRF) shall be forwarded to the finance section along with the handing/taking note separately for cash and bank payments;
- ✓ Finance section shall review the payment, if any documentation is missing, the payment request will be returned to the submitting authority for completion;
- ✓ Finance section shall process and clear the payment within five working days after the complete documentation is received.

### 7.2.3 If the payment is more than Rs. 250,000 and up to Rs. 1,500,000

- ✓ Duly completed Supplies/Services Request Form (SRF);
- ✓ At least three sealed quotations with an invitation for request of quote mentioning complete specifications from the supplier/services provider;
- ✓ Comparative statement duly signed by the procurement committee with financial approval as per scheme of delegation;
- ✓ Copy of the Local Purchase Order (LPO)/duly signed contract copy;
- ✓ Copy of the Supply Received Note (SRN);
- ✓ Original invoice submitted by the supplier/services provider;
- ✓ Completed Payment Request Form (PRF) along with all supporting documentation attached;
- ✓ Payment Request Form (PRF) shall be forwarded to the finance section along with the handing/taking note separately for cash and bank payments;
- ✓ Finance section shall review the payment, if any documentation is missing, the payment request will be returned to the submitting authority for completion;
- ✓ Finance section shall process and clear the payment within five working days after the complete documentation is received.

### 7.2.4 If the payment is more than Rs. 1,500,000

- ✓ Duly completed Supplies/Services Request Form (SRF);
- ✓ Copy of tender notice/tender documents advertised in the newspapers;
- ✓ Copy of all the bids received against the tender and signed by the procurement committee members;
- ✓ Bid analysis report/comparative statement signed by the procurement committee;
- ✓ Duly signed contract copy;
- ✓ Copy of the Supply Received Note (SRN);
- ✓ Goods Satisfactory Report
- ✓ Original invoice submitted by the supplier/services provider;
- ✓ Completed Payment Request Form (PRF) along with all supporting documentation attached;
- ✓ Payment Request Form (PRF) shall be forwarded to the finance section along with the handing/taking note separately for cash and bank payments;
- ✓ Finance section shall review the payment, if any documentation is missing, the payment request will be returned to the submitting authority for completion;
- ✓ Finance section shall process and clear the payment within five working days after the complete documentation is received.

### 7.2.5 Payment process

Bank payments and cash payments are the two main modes of payment in HWA.

### 7.2.6 Bank Payments

In the case of purchase against donor funds, HWA policies and/or policies and compliance guidelines of the respective donor shall be applicable; whichever have the stronger compliance requirements.

### 7.2.7 Payment procedure implemented in HWA is hereunder:

- ✓ Upon receipt of Payment Request Form (PRF) documents, the Finance Officer shall review/process the payment. This shall include compliance checks as per the applicable rules, procedures, forms and formats required to process the payment under review.
- ✓ The finance officer will review the cheques and attached documentation before sending these to Programme manager/President (as per authority grid) for final approval and sign-off.
- ✓ The signed cheques shall be photocopied and attached to the payment documents.
- ✓ Original cheques shall be delivered to the payees through courier or by hand delivery.
- ✓ In case of local supplies/services providers, they shall be informed by telephone to collect their cheques.
- ✓ Proper signature/receipt shall be obtained from the authorized receiver of the cheque at the time of handover of the cheque.

### 7.2.8 Delegation of powers for approval of payments

APPROVING AUTHORITY AND THEIR LIMITS	
Amount	Approving Authorities
Up to PKR 50,000	Project Manager/ and section head
PKR 50,000 to 250,000	Program Manager
PKR 250,000 to 2,000,000	Competent Authority/President
Above PKR. 2,000,000	Competent Authority/EC

### 7.2.9 Cash Payments

Cash payments are an important part of HWA payment process. The purpose of establishing office petty cash is to meet the payment of small projects and day to day office expenses. As much as possible in practical terms the amount should be minimal and calculated on weekly need basis.

### 7.2.10 Payment procedure implemented in HWA is hereunder:

- ✓ In the weekly payment cycle, one day shall be designated for making cash expense, reimbursement of travel expenses to staff, payment of per diems, issuance of new floats and settlement of previous floats.
- ✓ In case of utilities/communication bills, payment may be made through cash as per actual bill to avoid any penalty/blockage/cut off of services.

While making payments through cash all the requisite procedures shall be applicable as described in the bank payment process and must be complied with.

In emergency operations, scope of petty cash payment will be defined by the situation and the nature of disasters/Work.

### 7.3 Authorization on Payments

- ✓ All payment requests/vouchers processed at Head Office level must be authorized by Program Manager / Regional Program Manager/President (according to Authority Grid) and validated by Finance Manager.
- ✓ All the payment requests processed at regional level must be approved by Head of Region and validated by Project Coordinator/Manager.

## 8 Petty Cash Management

### 8.1 Purpose of establishing petty cash

The most common payments from office petty cash are petty expenses, normal wear and tear at office, projects/office supplies and utilities, per-diem allowance, reimbursement of field trip expenses made by staff and all such payments which cannot be paid through banking system.

In emergency operations, scope of petty cash payment will be defined by the situation and the nature of disasters/Work.

### 8.2 Maintenance of petty cash

The petty cash will normally be maintained on requirement basis in Head Office, Regional and field offices. The volume of petty cash will be determined by Finance Manager in consultation with President at HO and Regional Finance Administration in consultation of Regional Head at regional level. The petty cash will be handled by accounts officer/finance officer

Petty cash should be maintained in Local currency and in case of any special need (e.g. emergency evacuations, overseas training and workshop etc) petty cash may be maintained in PKR. Petty cash should be placed in safe/locker, and only the Finance Officer can handle the keys. Petty Cash limit is Rs. 50,000 and the expenses Rs. 20,000 can be made through petty cash.

## 9 Working Advance

### 9.1 Objective and purpose of working advance

The objective of working advance is to meet the various field activity payments in cash where it seems impractical to manage the payments through bank as well as from office petty cash. For example:

- ✓ Office management cost at project site-office utilities and supplies, labour charges and

incentives etc.

- ✓ Travel and per-diem expenses to be paid at field level.
- ✓ Training & workshop/meeting cost-Participants per-diem, travel, accommodation, stationeries and office supplies, refreshment and miscellaneous expenses related to training and workshop at community level.
- ✓ Field visit expenses for monitoring and supervision purpose.
- ✓ Participation in overseas training, workshop and seminars.

It enables program staff to implement the activities in the communities and to manage the site office efficiently. It is finance officer's responsibility to provide needful technical support and guidance to prepare the working advance request as well as working advance report for the liquidation of working advances.

## 9.2 Procedures for issuance of advances

Following procedures will apply for the issuance of working advances:

- ✓ The requester will submit a request for a working advance to finance unit, explaining the purpose of working advance.
- ✓ Normally new working advance will not be issued without the settlement of previously taken working advances.
- ✓ The receipt of requested working advance will be obtained from working advance holder after the payment is made.

## 9.3 Working advance settlement and reporting

Working advance holders are responsible to prepare working advance reconciliation report in order to liquidate outstanding advances and submit to finance unit after getting approval from Project Manager.

- ✓ The working advance report should have to be made in accordance with the standard working advance report format and supported by all relevant documentation.
- ✓ The completed working advance report will be signed by working advance holder and submitted to Project Manager for approval.
- ✓ The Project Manager will review and approve the working advance report to ensure it is in line with planned activities and program budget and that all the supporting documentation is correct and complete and in accordance with finance and logs procedures in close coordination with finance officer/ Regional Finance Coordinator.
- ✓ The working advance holders are requested to settle their working advances soon after the completion of activity. Any working advance taken for particular training, seminar, workshop to be conducted in the field has to be reported back to finance within 5 days after the completion of entire activity.
- ✓ Any outstanding balance after the settlement of working advance will be deducted from

the next cash advance.

- ✓ Maximum PKR 100,000/- paid as advance in head office level, field office level paid maximum amount 200,000 or as per nature of expense after President approval.
- ✓ No capital items can be purchased through working advance. The working advances are limited to purchase of minor consumable goods and supplies required for the activities.

#### 9.4 Authorization

The working advance request will be authorized by Programme/Project Manager and validated by Finance unit. In case of regional office it must be authorized by HoR.

Annex: Working advance request

Annex: Working advance reconciliation

#### 9.5 Authorization limits

- Amount of Rs. 50,000 will be approved by Finance Manager and verified by Program Manager.
- Amount from Rs. 50,000-100,000 will be approved by Program Manager and verified by Finance Manager.
- Amount from Rs. 100,000-150,000 will be approved by President and verified by Finance Manager
- Amount above Rs. 200,000 will be verified by Program Manager, approved by President.

## 10 Staff Salaries, Advances and other Social Benefits

### 10.1 General

With regard to staff salary, allowances and other social benefits HWA follows the Human Resource Policies.

### 10.2 Payment of Salary

Salaries to project staff as well as office staff will be paid on consolidated basis from HWA bank account. Most staff members are charged in more than one project and their salary is budgeted as a percentage or co-funding. Salary will be paid by bank transfer or through cross cheque however support staff can be paid in cash up to Rs.20, 000.

### 10.3 Advances against Salary

All advance salaries should be approved by President. The HWA policy is to facilitate its employees if by genuine reasons one needs some financial assistance in shape of advance salary. An employee may get maximum advance equivalent to his/her three months salary/fee. No advance will be given until the settlement of previous advance. Maximum two advance salaries

can be awarded to the employees of HWA in a Fiscal Year. The advance salaries should be settled down in maximum four instalments. Six month continuous employment will be prerequisite to qualify for an advance salary.

#### 10.4 Payment procedures for Advance

An employee who wants to avail the facility should;

- ✓ Apply on prescribed advance form
- ✓ Get approval from Project Manager and send it to Finance department at Head Office (through Regional Accounts offices if applicant is based in field or region).
- ✓ Finance Manager will put to the President for approval
- ✓ If approved the payment will be made through cross cheque

#### 10.5 Travel and per-diem allowance

Travel & Per-diem allowance will be paid as per travel policy of HWA. In case of fully sponsored international travel by any institute/donor/organization only incidental allowance will be paid as per HWA travel policy.

#### 10.6 Over Time Payment:

HWA discourages work of any staff member after the office hours and on weekend.

#### 10.7 Tax liabilities

HWA withholds the income tax from the monthly salary/remuneration from project as well as HWA staff as per specified rates of Federal Board of Revenue. HWA encourages the employee to fulfil the obligation to own the National Tax Number and pay taxes to the government.

### 11 Financial Reporting

#### 11.1 Definition

Financial Reporting is the set of standard reports which reflects the status of income and expenditures, flows of the funds and performance of the planned activities in financial language. It is an important marketing tool for the internal management and external donors which provide analytical financial information of the project activities and create opportunities for future funding sources. Sound and adequate financial reporting system increases the efficiency as well as the goodwill of organization.

As the programmes are funded by different donors, reporting requirement and audit requirement will vary from donor to donor and HWA have to follow donor's guidelines. The HWA internal reporting system is fully compatible with donor's reporting requirements.

## 11.2 Project Financial Reporting

Head Office has to prepare project financial reports that reflect complete information of financial transactions for entire reporting period of a project on a stipulated date set by donor. The reports are prepared on the format provided by the donor or on standard format (if not provided). Project Financial Report may includes:

- ✓ Statement of expenditures for the current period.
- ✓ Statement of expenditures prior period.
- ✓ Approved/revised project budget.
- ✓ Activity wise unspent balance.
- ✓ Activity wise burn rate in percentage.
- ✓ Funds reconciliation statement.

## 11.3 Closing of Books of Accounts and Financial Statements

Head office has to prepare all books of accounts and Financial Reports in PKR as a part of audit requirement with the reflection of financial transactions for entire year. Financial Report includes following:

- ✓ General Journal
- ✓ General Ledgers
- ✓ All types of Vouchers
- ✓ Bank/Cash Reconciliation Statements
- ✓ Cash count/verification
- ✓ Outstanding advances (if any)

## 11.4 Bank Reconciliation

- ✓ Bank Reconciliation Proper bank reconciliations shall be prepared monthly by the Finance Personnel and approved by the Head of Finance.
- ✓ Preparer should compare both the bank statement and the cash book balance and tick off all items which are in both records and also check the bank statement itself for accuracy of additions.
- ✓ For the unmarked items preparer should identify and record in the cash book any other debits or credits on the bank statement which are not in the cash book.
- ✓ All reconciling items should be examined for genuineness and any unusual items investigated.
- ✓ On completion of the above, reconciliation should be prepared as follows: Balance per bank statement
- ✓ Less: Unpresented cheques
- ✓ Add: Outstanding lodgments (e.g. deposits in transit)
- ✓ Cash/Bank book balance Approved monthly bank reconciliation should be filed in a "Reconciliations" file.



## 11.5 Standard Reporting Currency

Unless it is special requirement from the specific donor, all financial statements are being prepared in local currency. In case of use of foreign currency, unless agreed with the donor, the rate at which the last funds are transferred to project's PKR account is used for the conversion of PKR figures into foreign currency.

## 11.6 Exchange Gain and Loss

In case the budget is approved in foreign currency any gain or loss due to the fluctuation of exchange rates will be charged to individual project. Project fund will increase in case of gain or otherwise.

## 12 Audit

### 12.1 General

All funded programs will be audited if required by the donor, annually or at the end of the project. The cost of audit will be borne by the donor and report will be submitted to the donor not later than three months after the completion of the project. HWA should have to be audited on an annual basis not later than three months after the closing of financial year.

### 12.2 Preparation for audit

For the preparation of audit all set of annual financial reports should have to be ready before audit firm proceeds the audit of the programs. In addition, we should have to be able to provide the development contract of the program, budgets, action plan, procurement file and other relevant correspondence as deemed necessary for auditing. Project Managers and the Finance Manager are responsible to coordinate with audit and deliver the necessary documents to auditor as required.

### 12.3 Procurement of Audit Services

The following procurement principles should be applied specifically to audit compliance services:

- ✓ In case donor wishes for the audit of a project a provision must be made in project budget at the time of approval. The Auditor will be hired by HWA through bidding procedure unless arranged by the donor. The same procedures will be adopted in case of annual audit of HWA.
- ✓ The selection process will be carried out by Head Office.

### 12.4 Selection Criteria for Procuring audit firms

The standard HWA procurement procedures will apply for the selection of audit firms. The audit firms should have to be nationally/ internationally recognised i.e. the firms must be independent and able to deliver audit services in accordance with IFAC.

- ✓ The audit firm must be nationally recognized, which means:

- 
- That the signing audit partner must be a Chartered Accountant or Cost & Management Accountant.
  - That the national body must be a member of IFAC, and
  - That the audit firm should be part of a network or group with internationally recognized procedures for quality review of their audit work.
- 
- ✓ The audit firm does not necessarily need to be an international organisation, but the audit procedures used must be internationally recognized and quality assurance must be regular and well documented.
  - ✓ The financial audit must be carried out in accordance with IFAC standards.
  - ✓ The audit firm must have experience of three years and must demonstrate the necessary experience and qualifications in auditing

### 12.5 Deadlines of annual audit

The audit of the funded programs (if require by the donor) should have to be completed within three months or as specified by the donor after the closing of the project.

All original documents related to the project from the field must be sent to Head Office at the end of the project.

The audit arrangements must specifically require the audit firm to report separately:

- ✓ The financial audit opinion
- ✓ The performance audit opinion
- ✓ The auditor's report
- ✓ The auditor's recommendations to the HWA management

The audit opinions must report on the document about which they are specifically expressing an opinion; the financial report and/or the management performance report. The auditor's report must contain certain specific information about the audit work performed and other formal statements and declarations. The auditor's recommendations to the project management is a "service document" where the auditor may present certain recommendations; typically to improvement of internal controls, the accounting procedures, etc. Such recommendations should always be commented on by the project management.

## **HAP Statement of HWA**

During all its policies implementation and procedures HWA will adhere to HAP Principles of Accountability which includes:

1. Commitment to humanitarian standards and rights
2. Setting standards and building capacity
3. Communication
4. Participation in programmes
5. Monitoring and reporting on compliance
6. Addressing complaints
7. Implementing Partners

The Executive Committee RESOLVED and unanimously approved the Financial Policy of HWA with additions and revisions under Agenda item no 1 in the Executive Committee Meeting held on 15<sup>th</sup> July, 2021.

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Member Exective Committee

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Member Exective Committee

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Vice President

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Treasurer

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President

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General Secretary

The Executive Committee **RESOLVED** and unanimously approved the Financial Policy of HWA with additions and revisions under Agenda item no 1 in the Executive Committee Meeting held on 15<sup>th</sup> July, 2021.

Abid Hussain  
Member Executive Committee

Fida Hussain  
Member Executive Committee

Mashoq M  
Member Executive Committee

Yaseen Ali  
Member Executive Committee

Zahida  
Member Executive Committee

Samina S  
Member Executive Committee

Khadija  
Member Executive Committee

Md. Hwa  
Member Executive Committee

Sikander Ali  
Member Executive Committee

Saiqa  
Member Executive Committee

Shakeelani  
Vice President

Naila  
Treasurer

Akmal Ali  
President

Asghar  
General Secretary