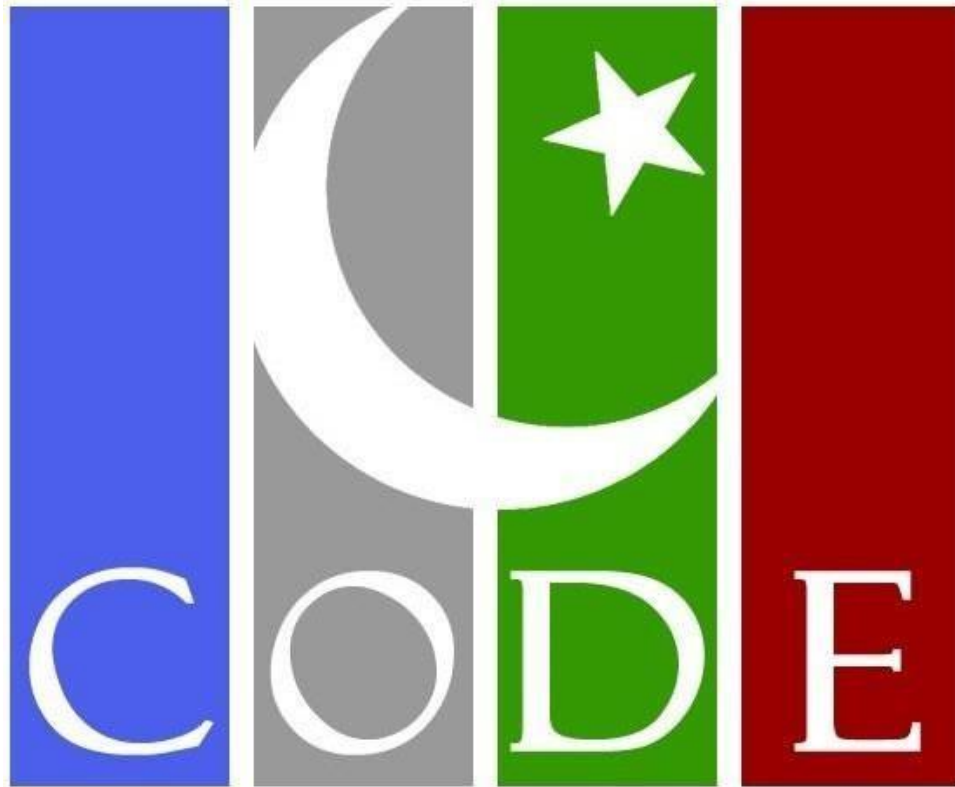


FINANCIAL MANAGEMENT POLICY



CURSOR OF DEVELOPMENT
AND EDUCATION PAKISTAN

CODE PAKISTAN

2023

1. TITLE, COMMENCEMENT AND APPLICABILITY

These policies and procedures may be called as **CODE PAKISTAN** Financial Policies & Procedures Manual-2023 and in short Financial Manual.

These Policies & Procedures have come into force on **11th** day of **December/2023** after due approval by **CODE PAKISTAN** Executive Body and shall supersede all existing rules and regulations until or unless stipulated explicitly.

This Financial Manual (FM) will be applicable to all Project & Programs, Sub offices who operate under the management control of **CODE PAKISTAN** or its authorized appointees. These FM policies and procedures will apply to all persons appointed on regular basis in full time employment of the **CODE PAKISTAN** as well as:

1. Regular employee – hired on full time basis for core activities of CODE Pakistan
2. Consultants – short- or longer-term duration
3. Project employee - short- or longer-term duration
4. Part time / temporary employee- hired at daily or hourly rates on a temporary basis
5. Persons appointed as experts, advisors or consultant and/or those who are paid by CODE PAKISTAN

On occasions in this manual, 'he' is used for "he or she", 'him' for 'him or her' and so forth. Whilst we tried to avoid this practice it is sometimes necessary for reasons of style. No prejudice or stereotyping according to gender is assumed or intended.

Finance department of **CODE PAKISTAN** in this manual is to be referred as a dedicated Finance department or Person/team designated to perform FM department function in conjunction with other assigned responsibilities.

2 - HOW TO USE THIS MANUAL

1. PURPOSE OF THIS MANUAL

The purpose of this manual is to provide ready reference and specific guidelines for **CODE PAKISTAN** employees in FM procedures within **CODE PAKISTAN** offices. It is intended to prescribe step by step guidance for maximum possible eventualities and defines concrete FM policies and procedures to be followed. In the general applicability of these Policies and Procedures, the **CODE PAKISTAN** President &/or **CODE PAKISTAN** Executive Body / Directors can make special dispensations under specific circumstances. Compliance with these policies and procedures are considered to be a mandatory condition for financial management of **CODE PAKISTAN**. The manual will help to smooth operations of **CODE PAKISTAN** by providing the management with timely information for decision making. It is intentionally written in easy English and is user friendly. The FM policies included in this manual focus on key financial management principles and are designed to provide direction to **CODE PAKISTAN** management and its employees managing the finance department for the management and use of financial resources.

2. AUTHORITY OF THIS MANUAL

The original version of this manual placed with the Finance Department at **CODE PAKISTAN** Head Office, is the legal version and takes precedence over other versions that may be produced. Any rule, order or instructions, precedents, SOPs, contracts, manuals made or issued by **CODE PAKISTAN** and enforced before the commencement of this Manual shall, insofar as they are inconsistent with the provisions of this manual be deemed to have been abolished or made under these policies. Updates shall be circulated from the office of HR, along with the version control, whenever revision takes place. The FM Manual holders shall be responsible to replace old pages with updated pages, discard replaced pages and update the previous version with the latest release.

3. DISTRIBUTION

Sufficient copies of this manual have been produced and each employee in the Finance Department of **CODE PAKISTAN** department who is managing finances or doing accounting has at least one copy available for reference. It is the responsibility of the Finance Manager to ensure that their copy of the manual is kept up-to-date and placed in accessible location to all relevant **CODE PAKISTAN** Employees of the Finance Department.

4. REVIEW OF THE MANUAL

Finance Manager is responsible for disseminating these policies and procedures to all concerned staff engaged in financial management including accounting so that they understand **CODE PAKISTAN** standard Financial Policies and Procedures. They are also responsible for informing employees of the importance of reporting any suspected violation of this manual to the management, without fear of reprisal. It is the responsibility of new employee to review this manual and ensure it is understood before the conclusion of their probation period and must abide by the foregoing policies and procedures of **CODE PAKISTAN** in their dealings and report any violations of these standards to their appropriate departmental head, President, Directors, or Executive Body for appropriate actions.

5. AMENDMENTS TO THIS MANUAL

It is the collective responsibility of all relevant **CODE PAKISTAN** employees to review and suggest modifications/changes that can further improve the effectiveness of this manual. If an employee identifies that

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this manual has overlooked an issue or procedure or wants to recommend an improvement in some policy or procedure, he should write down the suggested improvement and discuss it with his line manager before forwarding it through respective department heads. If the suggested improvement is in line with the overall organizational operational requirements, financial affordability as well as all applicable laws of Pakistan, Finance Department will draft the proposed amendment(s) and forward it to the Executive Body for consideration and final approval.

6. DISCIPLINARY ACTION

Violation of the policies and procedures in this manual may lead to appropriate disciplinary action and may lead to termination and/or legal action.

7. INTERPRETATION

Questions of interpretation of FM policies and procedures are to be referred to the Finance Department and if required then to President/Executive Body for further interpretation of these policies and procedures which will be deemed and agreed as final and binding for all concerned.

8. PRINCIPLES

The Manual follows the generally accepted accounting principles and standards relating to financial management.

3 - ABOUT THE CODE PAKISTAN

Cursor of Development and Education (CODE) is a Pakistan-based independent not-for-profit organization founded in 2014, with head office in Islamabad. The organization is registered with the Government of Pakistan under Societies Act XXI of 1860. The organization has also obtained registration under Islamabad Capital Territory Charities Registration, Regulation and Facilitation Act, 2021 on November 18, 2022.

THEMATIC, SERVICES AND GEOGRAPHIC PORTFOLIO

CODE Pakistan is not only connected geographically all across Pakistan in about every province, as well as Azad Jammu and Kashmir, the Federally Administered Tribal Areas (FATA), and Gilgit- Baltistan, but also across a vast spectrum of social strata including government functionaries, parliamentarians, development organizations, political parties, religious leaders, civil society, academia, journalists, and the youth.

Thematically, Promoting Rule of Law (RoL), Governance and Reforms, Human Rights and International relations are CODE Pakistan's forte. In addition, the organization also specializes in Peace and tolerance building, Countering extremism and Conflict resolution. In these thematic areas, the organization provides a wide range of services spanning the project cycle including research and analysis, policy advocacy, regulatory and policy technical assistance, institutional strengthening, training and capacity building and organizational systems development/ strengthening. Human rights, inclusive programming, women empowerment and incorporating IT- based solutions remain cross-cutting areas of focus in CODE Pakistan's work.

1. POLICY STATEMENT

Executive Body is responsible for approving the policies for mitigating risk, while the senior Management of operations is responsible for identifying risks and development of policies for mitigating risk.

2. Authorization Limits

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

3. Code of Ethics & Confidentiality

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

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

4. Record Retention

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

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

5. PURPOSE OF THE POLICY

The Financial Management Policy and Procedures aim to achieve the following objectives:

- a. To provide a systematic framework and procedures for financial management leading to the efficient and effective financial management practice compliance to standards.
- b. To ensure that violations of financial rules and procedures is prevented and financial risks minimized.
- c. To create an awareness amongst management on the need to have effective internal controls so that the organization is able to achieve its objectives economically, effectively and efficiently.

6. APPLICABILITY

In the general applicability of these Policies and Procedures, the **CODE PAKISTAN** Executive Body/Director, and /or CFO can make special dispensations under specific circumstances. Compliance with these policies and procedures are considered to be a mandatory condition of employment at **CODE PAKISTAN**.

7. PROCEDURES

The management is responsible for establishing and maintaining an adequate system of internal control within the organization with an objective to:

- a. Ensure achievement of objectives of the organization with economy, efficiency and effectiveness.
- b. Preserve the safety of assets;
- c. Improve quality of customer service;
- d. Ensure reliability of financial information;
- e. Ensure staff adherence to policy and guidelines; and
- f. Ensure compliance of laws and regulations.
- g. Ensure that all policies, procedures etc., are well communicated within the organization and understood.

The above objectives will be achieved through optimum division of duties, documentation and communication of policies and procedures and establishment of an appropriate and robust accounting system together with an effective internal control environment.

Following minimum segregation of duties should be adhered to:

- a. Person responsible for procuring goods and services should not also be responsible for payments to supplier.
- b. The recording, checking and authorizing payments should be carried out independently of the person disbursing the payment.

For an effective internal control system, there needs to be an adequate plan of organization, involving separation of operations into appropriate divisions and sub-divisions and strict adherence to the principle of the “right man for the right job” while appointing resource persons to assume responsibility between each division and sub-division and the governing body and overall co- ordination of the institution’s activities.

Designing and implementing finance and accounting workflows for recording and custody procedures to ensure that the funds and property of the institution are properly safeguarded against theft and improper use, either by error or intent; that all expenditure are incurred only after authorization and are properly accounted for; and that all income is properly and completely accounted for and received in due course.

Management oversight is an important attribute of an effective internal control environment and the management should exercise peer review of the financial operation and position at regular and frequent intervals through establishing a system of financial and operational progress reporting framework.

Managerial supervision and review through an internal audit are also an essential element and is a part of any effective internal control system.

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

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

CHAPTER 2 – GOVERNANCE

1. POLICY STATEMENT

Various Committees and bodies shall be constituted for ensuring effective governance to manage critical operation areas. Their composition shall adhere to established best practice.

2. PURPOSE OF POLICY

The types of bodies/committees to be constituted and their purpose is as under.

2.1 GOVERNING BODY

A legally constituted Executive Body/Trustees will be the highest governing body and have the responsibility to design policies and/or make policy decisions around the goals, objectives, programs and activities of the organization.

2.2 DELEGATION OF AUTHORITY BY AUTHORIZED SIGNATORIES

Bank accounts can be operated by individuals who are not designated as “Authorized Signatories” in the above only if, and to the extent, they have been given written authority to do so by governing body. For example, the governing body may authorize the team leader of a project to operate organization’s bank account for sole purpose of the project to which he/she is leading. This approval must be granted in memo form by the Authorized Signatory and should be filed with the employee’s personnel file as well as be on file with the Department.

No person who is not an Authorized Signatory may enter into binding contract negotiations, or approve or execute a contract on behalf of the company, without explicit written permission from management. Those signing without such authority may incur personal liability, and/or may be subject to discipline by the company, including termination.

2.3 AUDIT COMMITTEE

The Audit Committee, composed of three members from the Executive Body/Trustees, is mandated to ensure that operations are conducted in accordance with the organization's charter and that its financial records are maintained accurately and appropriately. In addition, it:

- a. Reviews and recommends approval of annual financial statements/ annual audit reports.
- b. Approves auditors (internal/external) for the next year.
- c. Reviews the reports of the internal auditor for taking necessary action.

2.4 FINANCE COMMITTEE

The Finance Committee is an independent body answerable directly to the Governing Body. The Finance Committee is mandated to make recommendations to the Board regarding finances and fund development, consistent with the stated goals of the organization.

2.5 PURCHASE COMMITTEE

The prime responsibility of the Purchase Committee prime will be to ensure transparency in the procurement process and to ensure that the procurements are made efficiently and cost effectively, and maximize value for money proposition for the organization as per applicable rules.

3. APPLICABILITY

The mandates of the Governing Body shall be applicable to the **CODE PAKISTAN** in general the mandate of the various committees indicated shall apply to their respective areas of operation.

4. PROCEDURES

4.1 GOVERNING BODY

The Governing body Board has the power to constitute any number of committees. However, at a minimum, the following committees will be constituted:

- a. Audit Committee
- b. Finance Committee
- c. Purchase Committee

4.2 AUDIT COMMITTEE

- a. The Governing Body approves the Terms of Reference of the committee.
- b. The Audit Committee should comprise of at least three members.
- c. The Head of Organization and Finance & Accounts should not be part of the committee.

4.3 FINANCE COMMITTEE

- a. The Governing Body approves the Terms of Reference of the committee.
- a. The Finance Committee should comprise of at least two members.

4.4 PURCHASE COMMITTEE

- a. Purchase Committee comprising of at least three members will be reporting directly to the Head of the Organization. The Purchase Committee is mandated to carry out the procurement above a certain threshold, which shall be decided by the Governing Body.
- b. No members from the Governing Body shall be part of the Purchase Committee, as it would only consist of members from the executive staff. The Head of Finance and Accounts will be part of this committee at all times.
- c. The Governing Body would approve the Terms of Reference of the committee.

5. ROLES AND RESPONSIBILITIES

5.1 AUDIT COMMITTEE

The following is the role and responsibility of the Audit Committee:

- a. Reviews and recommends approval of annual financial statements/ annual audit reports.
- b. Approves auditors (internal/external) for the next year.
- c. Reviews the reports of the internal auditor for taking necessary action.

5.2 FINANCE COMMITTEE

Following are the duties and responsibilities of the Finance Committee:

- a. Review annual budgets for composite and individual programs. This should be the job of the audit committee but finance committee. If it has to review from the audit perspective, then the terms should be indicated.
- b. Arrange for proper bookkeeping practices in accordance with the generally accepted accounting principles.
- c. Advise the Personnel Committee on salaries and benefits.
- d. Monitor the financial management of the agency.
- e. Communicate information on possible funding sources with the Board and management.
- f. Review the reports of the internal auditor.

6. HEAD OF ORGANIZATION

6.1 DUTIES & RESPONSIBILITIES

- a. Director / Team Lead Reviews and approves monthly payroll summary for the staff, ensuring correct payee, hours worked, and check amount
- b. Director / Team Lead Reviews and approves all expense vouchers with supporting documents for cheques requiring his/her signature.
- c. Director / Team Lead Reviews and approves all contracts for goods and services in excess of PKR 100,000.

6.1 MANAGER/OFFICER IN-CHARGE OF FINANCE SECTION

6.1.1 DUTIES & RESPONSIBILITIES

- a. Review daily accounting journals for postings into the accounting system.
- b. Review and verify monthly payroll summary for the staff ensuring correct payee,
- c. hours worked, and check amount.
- d. Receive unopened bank statements.
- e. Prepare annual projects, programs and organization budgets.
- f. Review and approve all financial statements and reports.
- g. Review and approve list of pending disbursements.
- h. Review and verify all expense vouchers with supporting documents for cheques requiring his/her signature.
- i. Authorize all inter accounts/funds transfers.
- j. Review and approve all bank reconciliations.
- k. Review and approve all contracts for goods and services below PKR 10,000.
- l. Manage assets.

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6.2 ACCOUNTANT/ BOOKKEEPER

6.3.1 DUTIES & RESPONSIBILITIES

1. Receive and open all incoming receipts, invoices, requests for payments etc.
2. Prepare Receipt Log and Invoice Log.
3. Process all receipts and disbursements.
4. Process monthly payroll including payroll tax returns.
5. Submit requests for inter accounts/funds transfers.
6. Mail all checks for payments.
7. Reconcile all bank accounts on monthly basis.
8. Maintain and reconcile general ledger on a monthly basis.
9. Prepare all financial statements and reports.
10. Manage Petty Cash
11. Write cash and bankbooks, and ensure daily closure of the cashbook.

Chapter 3 - THE FINANCIAL CALENDAR

1. POLICY STATEMENT

There shall be a financial calendar that shall be strictly adhered to. It shall be approved by the Governing Body. Strict compliance shall be ensured and monitored by the Governing Board and various Committees in their respective areas. The financial year for CODE PAKISTAN runs from July 1 to June 30.

2. PURPOSE

The Financial Calendar acts as a management control device as it provides a checklist for ensuring compliance

3. APPLICABILITY

It is applicable to the whole of CODE PAKISTAN in general but specifically to the departments and persons who have to take the actions indicated in the calendar.

4. PROCEDURES

Area: Governance

#	Event	Frequency	Role/Responsibility
1	Monthly Closing	By 15 th of every month for the previous month closing	Finance Department
2	Yearly Closing	By 31 st July of the subsequent Year	Finance Department to initiate.
3	Quarterly Meeting of the Governing Body	By 15 th of the month subsequent to the Quarter end.	Secretary of Governing Body to call meeting.
4	Quarterly Meeting of the Audit Committee	Before each meeting of the Governing Body	Secretary of the Audit Committee to issue notice
5	Quarterly Meeting of the Finance Committee	Before each meeting of the Governing Body	Secretary of the Committee too issue notice.
6	Management Meetings	First Tuesday (in case of holiday, the next working day following) of each month.	Director to have the notice issued.

Area: Specific Events

#	Event	Frequency	Role/Responsibility
1	Procurement Plan for the subsequent year	Before submission of the operational plan/budget for approval from the Head of Organization.	Purchase Manager
2	Approval of yearly operational plan /budget for the subsequent year by the Head of Organization	Before last meeting of the Governing Body for the year.	Departmental Heads to submit proposals to Finance Department.

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3	Approval of yearly plan for the subsequent year by the Governing Body	In the last meeting of the Governing Body for the year.	Secretary of GB to issue notice.
4	Project Budget	Within 15 days of the financial close of the project.	Finance Manager/Officer
5	Project Financial Close	Within 15 days of receiving the full and final payment against the project.	Director to ensure all closure formalities.

CHAPTER 4 - ACCOUNTING POLICIES

1. POLICY STATEMENT

Accounting policies with respect to treatment of accounting transactions need to be spelled out. They should conform to internationally accepted accounting standards as adopted in Pakistan by regulatory bodies.

2. PURPOSE OF THE POLICY

The purpose of the accounting policies is to bring consistency in treatment of accounting transactions and presentation of financial statements as per acceptable standards.

3. APPLICABILITY

The accounting policies are applicable to the **CODE PAKISTAN** and all its field units.

4. PROCEDURES

4.1 BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with cash system of accounting. Under this system all grants, donations, dividend / mark-up incomes and expenditures are accounted for on receipt and payment basis.

4.2 HISTORICAL COSTS

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

4.3 DEPRECIATION/AMORTIZATION

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

4.4 CAPITAL ASSETS

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

4.5 MATERIALITY

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

4.6 FOREIGN CURRENCY TRANSACTIONS

- a. Transactions in foreign currencies are converted into rupees at the exchange rates prevalent on the date of transaction. This will be the rate provided by the bank for conversion.
- b. All cash and bank balances in Foreign Currency are translated at the exchange rates prevalent on the reporting date and the differential will be reported as translation gain/losses.

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4.7 FULL DISCLOSURE

- a. Any information that is of sufficient importance, which will most likely influence the judgment and decision of the readers, will be included in the financial statements.
- b. When there is doubt as to whether certain information should be included in the financial statements, such information will in fact, be included. The organization will also comply with all donor disclosure requirements that are prescribed in the agreements signed with them.

CHAPTER 5 - ACCOUNTING SYSTEM

1. POLICY STATEMENT

Accounting and financial reporting should be done through an automated system. The system should also help in decision making through generation of various reports. It should ensure timely and accurate generation of information and employ appropriate controls.

2. PURPOSE OF THE POLICY

The purpose of the policy is to ensure economy, efficiency and effectiveness in financial reporting and institution of financial controls. The **CODE PAKISTAN** shall deploy an automated accounting system capable of handling the following accounting modules:

- a. General Ledger including Chart of Accounts
- b. Project Accounting
- c. Budgeting
- d. Treasury
- e. Fixed Assets
- f. Financial Reporting

3. APPLICABILITY

The policy is applicable to management and operation of the automated accounting system of **CODE PAKISTAN**.

CHAPTER 6 - REPORTING PROGRESS

1. POLICY STATEMENT

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

2. PURPOSE OF THE POLICY

The purpose of the policy is to ensure that an appropriate decision support system exists in the **CODE PAKISTAN** that enables the management to appropriately steer the organization towards achievement of its vision, objectives and goals.

3. APPLICABILITY

The policy is applicable on Heads of Finance.

4. PROCEDURES

4.1 INTERNAL FINANCIAL REPORTING (MANAGEMENT / GOVERNING BODY)

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

- a. Receipt and Payment Account
- b. Budget Variance Report
- c. Project Status Report (financial position of each project as at the reporting date)

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

4.2 DONOR REPORTING

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

4.3 EXTERNAL PERFORMANCE REPORTING

The Governing Body shall fix the performance indicators on an annual basis for the Organization. These indicators can be both Financial (growth in free reserves and grants etc.) and/ or operational (e.g., system automation, improved processes etc.) The Head of the Organization shall report to the Governing Body on regular intervals, the progress on performance indicators.

CHAPTER 7 - BUDGETARY CONTROLS

1. POLICY STATEMENT

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

2. PURPOSE OF THE POLICY

The purpose of the Policy to effectively manage the sources and utilization of funds of the **CODE PAKISTAN**, prevent waste, ensure economy and efficiency in management of funds. Objective is also to exercise financial control through minimization of variances.

3. APPLICABILITY

The policy is applicable to all those involved in the budgeting process from line managers to the Finance Department.

4. PROCEDURES

4.1 BUDGET PREPARATION

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

4.2 ACTIVITY BASED BUDGETING

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

4.3 REVIEW AND APPROVAL OF BUDGET

- a. Budget will be prepared on an annual basis and the responsibility for its preparation will rest with the Head of Finance & Accounts Unit who will prepare the overall budget in consultation with other department /program /project heads.

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- b. The Head of the Organization shall review the budget and submit to the Finance Committee who would present the annual budget to the Governing Body for the final approval.
- c. The Budget preparation and review process should start at least two months before the new financial year starts and should be approved by the Governing Body preferably before the beginning of next year.
- d. Each program/department/ project head, and project coordinator will be supplied with a copy of its item-wise approved budget. Budget will incorporate functional and object classification.

4.4 BUDGETARY CONTROL

- a. Exercise of budgetary control will commence from the start of the first day of each year.
- b. It will be ensured that program/department/ project heads maintain control over costs and as well as performance within the framework of approved budgets. Budgetary control will include variance analysis, corrective action and budget revisions.

4.5 Budget Amendments

- a. As a matter of principle, the planning which supports the preparation of budgets is based on certain assumptions considered correct at the time they were made. The management must constantly review and administer the approved budget so that significant changes are identified and necessary amendments/modifications made in the budget document.
- b. Management at all levels should always be alive to their responsibility to request amendments to the budgets as and when necessary.

Amendments may be of any of the following types:

- a. Change in total budget over a specified amount or percentage
- b. Re-appropriation of budgets from one budget head to another without affecting the bottom line.
- c. Offsetting inter-monthly changes without affecting the bottom line.
- d. All amendments in the budgets will follow the same authorization workflows as at the time of approval of the annual budget.

CHAPTER 8 - BANKING & CASH MANAGEMENT

1. POLICY STATEMENT

The **CODE PAKISTAN** must have written down procedure on banking and cash management and ensure strict adherence through appropriate internal controls.

2. PURPOSE

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

3. APPLICABILITY

These procedures are applicable to all staff dealing, whether physical handling or record keeping, with cash handling relating to receipts and payments and banking,

4. PROCEDURES

4.1 CASH MANAGEMENT

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

4.2 CASH HANDLING PROCEDURE

- a. All payments above PKR 30,000 or more will be paid through crosschecks only (marked Accounts Payee Only).
- b. Cash Advances will be disbursed to project staff only for the field visits, out of station vendor payments, minor procurements and payment of other operational field expenses. An advances register (manual or automated) shall be maintained under this head.

4.3. PETTY CASH PROCEDURE

- a. Petty cash shall be kept in a secured and wall-fixed steel safe fully secured and fixed.
- b. Petty Cash will be maintained by the Finance & Accounts Department.
- c. Maximum limit for petty cash is PKR 30,000, which shall be replenished on need basis periodically on a given day.
- d. The maximum limit of the amount that can be reimbursed through petty cash is PKR 30,000.
- e. No personal advances will ever be given to anybody out of Petty cash.
- f. Non-budgeted miscellaneous expenses that are not related to any planned activity are liable to be reimbursed from the petty cash.
- g. Employees will submit their claims along with the original invoice.
- h. The Departmental Manager will approve all petty cash disbursements in case it is related to the department as a whole or to the project manager, and provided it is directly related to the project.
- i. For replenishment of the Petty Cash account, FAD will prepare a detailed statement of expenditure along with original invoices for approval of the Head of Finance.

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- j. A fidelity insurance and cash-in-transit insurance will be taken for employees who are normally engaged in cash handling.

5. Establishing & Administering Bank Accounts

5.1 Banking Transactions

- a. Bank accounts will be maintained and banking transactions will be undertaken with the banks that are approved by the Governing Body and the branches designated by the Head of the Organization in consultation with the Head of Finance & Accounts.
- b. The Head of Finance & Accounts will recommend a change in the banks/branches deriving from persistent unsatisfactory service of a particular bank/branch, or for a desire to close any of the dormant accounts.
- c. In any case, the number of accounts will be maintained which are sufficient and consistent with the operating requirements.
- d. FAD will retain custody of all blank cheque-books and requisition replenishment as required.
- e. The bankbook system is divided between foreign currency transactions and PKR (Rupees) transactions.
- f. All transactions will be finally recorded in the general ledger in PKR and foreign currency balances will be converted into PKR at the financial period ends. The conversion will be made at spot-rate and must mention the nature i.e., buying or selling, prevalent rates by the close of business on that day so that these foreign currency balances and related transactions may be properly reflected in the financial statements prepared in PKR.
- g. Bank accounts will be operated by officials specifically authorized by the Head of the Organization on behalf of the Board.
- h. As a rule, signatures of a minimum of one official will be required to operate the bank account.
- i. In order to ensure smoothness of operation, each signatory will have a back-up signatory.

5.2 CONTROLS ON RECEIPTS & PAYMENTS

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

5.3 DISBURSEMENTS – PAYMENT THROUGH CHEQUES

- a. Payments will normally be made through crossed cheques only.
- b. Bearer cheques or cash cheques may be issued for amounts up to PKR 30,000. However, in specific cases such as replenishment of imprest, payment of salaries to support staff who cannot maintain a bank account, settlement of utility bills requiring same-day clearance, or payments to outstation vendors, bearer/cash cheques may be issued for amounts exceeding PKR 30,000. Additionally, such cheques may also be used for covering outstation expenses when necessary.

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- c. Payments will be made against Authorization for Payment (AFP).
- d. The FAD Unit will receive AFP, duly signed and approved covering invoices (together with supporting documents) falling due from the concerned department.
- e. The Accounts officer at FAD will check the voucher for approval; enter the details into the accounting system to generate an automated payment voucher.
- f. The Head of Organization will approve the payment for further processing.
- g. Accounts Officer will prepare a cheque for the amount and write the voucher number on the cheque counterfoil of the cheque-book, and send it along with supporting documents to authorized cheque signatories for signatures.
- h. After the cheque is signed, FAD will either send the cheque to the payee through courier or will obtain acknowledgement on the copy of the cheque by delivering it to the payee.
- i. Payment Vouchers will be numbered in a continuous/ single payment voucher series for all bank accounts. The name of the bank on which the cheque is drawn must be mentioned on the payment voucher.
- j. Bank-book must be updated daily.
- k. To exercise control, cancelled cheques, if any, must be retained in cheque-books after mutation.
- l. All expenses recorded in the accounts ledger shall be charged to specific jobs (Cost Centers) divided into the following groups:
- m. All expenses recorded in the accounts ledger shall be charged to specific jobs (Cost Centers) divided into the following groups:
- n. Contracted Projects (against whom invoices will be raised)
- o. Overhead Cost Centers (various office tasks)
- p. Departmental Overhead Cost Centers
- q. Cost Pool (Common Organizational Costs)
- r. All expense will be charged to specific Cost Centers and no booking shall be made without identifying the Cost Centers for it.
- s. Certain expenses could be charged to the departmental overhead if they could not be associated with a relevant Cost Center.
- t. All costs charged to a unit or department should only be charged with approval of the respective in-charge of the project/department.
- u. All vendor payments shall be made within the number of days calculated as average O/S receivables days for the last month plus 15 days. Note: Normally all expenditure should be formally sanctioned and a sanction file should also be maintained to facilitate the audit rather than have the auditors to go through each and every case/file.

5.4 BANK RECONCILIATION

The FAD Unit will be responsible for preparing the bank reconciliation statements for every account maintained by the organization by the 5th of each month. For this purpose, bank statements received from banks will be sent directly to the person responsible for bank reconciliation.

- a. The Head of Finance will review the reconciliations and shall initial the statements to evidence the review, investigate any discrepancies and unusual reconciliation items, and obtain satisfactory explanation for such

items.

5.5 RESTRICTED FUND MONITORING

- a. If the organization receives restricted funds for restricted usage/purpose, FAD should report the status of such funds held by the organization .

CHAPTER 9 - PROCUREMENT & PAYMENT PROCEDURE

1. POLICY STATEMENT

Procurement must be carried out and payments made in accordance with the laid down Procedures.

2. PURPOSE

The purpose of such procedures should be to ensure economical, efficient and effective procurement and timely and correct payments.

3. APPLICABILITY

These procedures are applicable to all the personnel dealing with procurement and making payments.

4. PROCEDURES

4.1 IN GENERAL:

- a. All items with value equal to or less than PKR 30,000 will be purchased with the approval of the Department/ Project manager.
- b. Items worth more than PKR 30,000 will need approval of the Purchase Committee. The procurement committee will consider if advertisement is required for the procurement of the goods/services. If yes, suppliers will send in quotations for the provision of the advertised good/services. Otherwise, request for quotations will be issued to three potential suppliers seeking quotations. Upon receiving the quotes, these will be evaluated on the Procurement Assessment Form for selection of qualifying supplier.
- c. Purchase Order is mandatory for all purchases valuing more than PKR 30,000.

4.2 PAYMENT PROCEDURE FOR GOODS

- a. All invoices received at front desk will be logged in the daily mail register and Monthly Bill Tracking Sheet and forwarded to Administration unit where it will be verified that all invoices bear the Purchase Order Number so as to ensure proper tracking of goods as well as the payments.
- b. No payments will be made on invoices higher than PKR 30,000 not having PO numbers specified on them.
- c. All invoices for the procurement of goods will be forwarded to the administration department.
- d. Administration department will ensure that all necessary documents are attached (in case anything is missing, the invoice will be marked as such and the vendor informed accordingly).
- e. Administration department will then forward the same to the FAD Unit, for payment.

4.3 PAYMENT PROCEDURE FOR SERVICES

- a. Invoices/memos received against service contracts at the front desk, will be logged in the daily mail register as well as in the Monthly Bill Tracking Sheet.
- b. The invoices/memo will be forwarded to the respective departmental heads/project managers initiating the contract for approval of payment. Thereafter, the invoice/memo will be forwarded to Administration department to ensure that all documents are enclosed prior to disbursement.
- c. Administration department will ensure that all necessary documents are attached (in case anything is missing,

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the invoice will be marked as such and the vendor informed accordingly).

- d. Administration department will then forward the same to FAD for payment.

4.4 PAYMENT GENERAL PROCEDURES

- a. Cheques prepared against invoices, will be handed over by FAD to the reception desk where it will be received on the Mail Register along with a receipt to be signed by the vendor while receiving the cheque.
- b. At times the actual invoice amount varies from that mentioned on the P.O at the time of its issuance. Such cases should be referred by the Admin Department to the department/project manager who had originally prepared the P.O so that s/he incorporates the changes along with the reason for the difference, and get it approved by the department/ project manager before handing it over to the Admin Department for further processing.

4.5 PROCUREMENT OF CONSUMABLES ITEMS (SUPPLIES)

- a. Consumable items with a value of less than PKR 30,000 shall be included in the supplies.
- b. Assets, which are not capitalized and have useful life of more than one year can be included in the Store and spares for supplies.
- c. Purchases of consumable items whose value for quarterly purchases is more than PKR 30,000 have to be brought into the store and spares of supplies.

4.6 GOOD RECEIPT NOTE

- a. Admin unit should ensure that Good Receipt Notes is prepared against each and every delivery of goods.
- b. GRN will be matched with the PO and attached with the AFP for payment processing.

4.7 SUPPLY REQUISITION

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

4.8 PROCUREMENT THROUGH DONOR FUNDS

- a. Procurement from donor fund is mandated in the donor agreement.
- b. Program manager should share the Procurement Plan for goods and services at the time of preparation of the working budget for the project.

4.9 PAYROLL PROCESSING

- a. Payroll shall be processed on a monthly basis.
- b. Admin Department will submit a monthly statement of “Joiners and Leavers” to FAD so as to report the particulars (demographic data, salary, grade/designation, date of joining/leaving) of both the new employees as well as of those whose term has ended with the organization.
- c. Admin Department will also submit a monthly statement of “Earning & Deduction” to FAD.
- d. FAD will compile the payroll, which will be approved by the Head of Finance and subsequently by the Head of Organization.

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4.10 PAYROLL REPORTS

Following reports will be prepared by FAD:

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

CHAPTER 10 - PROGRAM AND PROJECT ACCOUNTING PROCESS

1. POLICY STATEMENT

Project and Project accounting costing shall be done so that project and program-wise financial statements are possible where each program or project has a separate entity.

2. PURPOSE OF POLICY

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

3. APPLICABILITY

The policy is applicable to those responsible for accounting and costing in the finance department/wing.

4. PROCEDURES

4.1 ADVANCES FROM DONORS

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

4.2 PROGRAM AND PROJECT EXPENSES

- a. Cost centers are the building block for the accounting system.
- b. When a new project is contracted, relevant cost centers are created within the accounting system.
- c. Costs are allocated to the appropriate programs or projects in accordance with the cost centers noted on the invoices when they are approved for payment.
- d. In cases where advances or invoices are not released by the donors, preference shall be given to vendors offering credit facilities to CODE PAKISTAN. This approach is adopted to ensure uninterrupted project operations while minimizing the financial burden on the organization. The use of vendors providing credit facilities will be documented with appropriate justification to address any donor concerns regarding deviation from the three- quotation procurement process.

4.3 Monthly Program and Project Reports

- a. FAD will generate a Project Status Report for each ongoing program or project.
- b. The report entails details of the expenses incurred and grants received for the programs and projects to-date and during the month. This will be prepared on a cash basis and would clearly present sources and application of funds under major program budget heads.
- c. Report will be sent to the project manager and a summary of the Project Status Report will be sent to the Head of Organization.

CHAPTER 11 - FIXED ASSETS

1. POLICY STATEMENT

Fixed assets should be recorded, reported and safeguarded. Fixed assets need to be reconciled and tracked. All documents of titles to fixed assets should be retained.

2. PURPOSE OF POLICY

Purpose is to prevent unauthorized use of assets, their theft, and damage. To ensure their safe keeping and compliance to internal and donor reporting on a periodic basis.

3. APPLICABILITY

The policy is applicable to the **CODE PAKISTAN** and its relevant accounting staff.

4. PROCEDURES

4.1 CAPITALIZATION

- a. Assets that have a useful life of one year or more and a gross cost of PKR 50,000 or more should be capitalized as fixed assets.
- b. As a rule of thumb, all Furniture and Fixture should be capitalized irrespective of the value.
- c. Quantities of all items of capital and durable nature but involving nominal value and therefore expensed out, will also be entered into the "Non-Consumable Store and Spares" register. Such assets will be physically verified once every year and by the Administration Department in order to maintain proper control over their custody.

Item	Description	Threshold	Remarks
Non-expendable	Items with unit cost of PKR 50,000 or more and useful life of more than one year	<i>Capitalize</i>	Maintain a formal Asset Register record
Non-expendable	Items with unit cost of less than PKR 50,000 and useful life, more than one year.	<i>Do not capitalize</i>	Maintain a memorandum store and spare record
Consumables	Expendable items that are consumed, exhausted, or become an integral part of other property when put to use.	<i>Expense out</i>	Examples include office supplies, stationery and like items

4.2 CLASSIFICATION OF FIXED ASSETS

Fixed assets will be classified into the following categories:

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- a. **Office Equipment:** This will include purchase price and other incidental charges such as handling and installation charges, and custom duties, freight in case of assets incurred on acquisition of generators, air-conditioners, photocopiers, and other scientific instruments such as cameras and audio-visual equipment.
- b. **Computer & Accessories:** This includes purchase price and other incidental charges such as handling and installation charges and custom duties, freight in case of assets incurred on acquisition of servers and computers, printers and scanners, multimedia projectors etc.
- c. **Furniture and Fixture:** Includes purchase price and incidental charges incurred on acquisition of furniture, lights, blinds, carpets, electrical work and the likes.
- d. **Vehicles:** Includes purchase price and other incidental charges incurred on acquisition of cars, jeeps, vans and other automobiles, motorcycle etc.\

4.3 CAPITAL BUDGETING

- a. Capital (fixed assets) budgeting will form part of the overall project budgeting exercise to be carried out by heads of departments/ programs before the commencement of each year.
- b. In the normal course, only fixed assets provided for in the capital budget will be permitted. However, should a department or a program require to purchase fixed assets not provided for in the budget, a request for the purpose shall be made to the Head of Organization who may or may not allow purchase of that particular Fixed Asset.

4.4 IDENTIFICATION

- a. For purposes of exercising physical and documentary control, all fixed assets will be identified by a unique asset code (comprising alphabetic and numeric characters) indicating type and year of purchase to be assigned by the Administration Department.
- b. As far as possible, asset numbers allotted will be painted, embossed or otherwise affixed on the assets so as to be conspicuous.
- c. Asset codes will be developed using symbols and will indicate the following information:

4.5 ADDITIONS

Provisions relating to requisition “Procurement of Goods” will be followed for procuring new assets.

4.6 FIXED ASSET RECORDS

- a. A Fixed Asset Register will be maintained by the Administration Department.
- b. FAD will record all purchases of fixed assets items in the fixed assets register on a monthly basis during the month-end closing routines.

4.7 ASSET TRANSFERS

- a. User departments /programs/ projects will submit in writing details of excess assets in their custody to the Administration Departments.
- b. Transfer will be made through an Assets Return Form which will be prepared in duplicate as described below and copied to:

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- c. Transferee unit/program office
- d. Transferor unit/program offices
- e. The Administration Unit will update fixed assets registers for all transfers.

4.8 DISPOSAL OF ASSETS

- a. All assets will be placed for disposal with prior approval of Head of Organization.
- b. Assets will not be sold in the market; instead, they will be donated to other organizations with the donor's approval. If the asset is the property of CODE Pakistan, it will be donated to another organization only after obtaining approval from the Executive Body.

4.9 PHYSICAL VERIFICATION

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

CHAPTER 12 - PERIODIC FINANCIAL REPORTING

1. POLICY STATEMENT

Financial reporting shall not be restricted to annual reporting but the system should also generate periodical reports that shall be detailed and the procedures specified.

2. PURPOSE OF POLICY

The purpose of policy is to ensure that all periodical financial reports are generated on time to meet the decision support requirements and help in systematic compilation of financial reports.

3. APPLICABILITY

The policy is applicable to the CODE PAKISTAN and its staff generating financial and management reports.

4. PROCEDURES

4.1 MONTH-END CLOSE REQUIREMENTS

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

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

4.2 YEAR END PROCEDURES

- a. Revenues/receipts and expenses/disbursements closed out in the general ledger and balance sheet items transferred to the next financial year.
- b. Bookkeeper completes the analyses and reconciliations for the year-end.
- c. Physical inventory of fixed assets is undertaken and reconciled to fixed asset records.
- d. Applicable DONOR reporting requirements complied.

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- e. Sent out confirmation letters to all officers/employees with outstanding advances.
- f. Financial and other management reports prepared and distributed to concerned staff.
- g. Financial records, journals, ledgers, year-end financial statements prepared for the review of external auditors.
- h. FAD instructs all departments to send their invoices within fifteen (15) days of year-end.
- i. Accounts officer will create a new file for the new fiscal year, copies the old year data into it, and processes a change of the new fiscal year.
- j. This sets up the New Year file with the old year data recorded as history.
- k. When FAD receives final audit adjustments, the same are entered into the old year file so that it will print the same numbers as the audited financial statements when a report is requested.
- l. This process retains full access to the old data in the old file while allowing normal activity in the New Year's file without waiting for the audit adjustments to be available.
- m. At the completion of audit, all adjustments to financial records are made and audited financial statements distributed to the concerned people/organizations.

4.3 NEW YEAR PROCEDURES

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