



Afghanistan Educational & Health Development Aid (AEHDA) Organization

FINANCIAL POLICIES AND PROCEDURES

Approved by:

By Chair of BOT

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Introduction	4
1. Article 1: Applicability	4
2. Article 2: Accountability	5
3. Article3: Internal control	5
4. Article 4: General framework	6
5. Article 5: Budgeting	6
6. Article 6: Accounting system	9
7. Article 7: Accounting for Non Expendable.....	11
8. Article 8: Income	15
9. Article 9: Expenditure.....	16
10. Article 10: Procurement of goods, services and authorization levels	18
11. Article 11: Cash flow planning and liquidity management	19
12. Article 12: Verification for payments	21
13. Article 13: Cash & Bank management	22
14. Article 14 Advance Payments	25
15. Article 15: Accounting and book keeping	27
16. Article 16: External Audit	29
17. Article 17: Currency Exchange regulations	32
18. Article 18: Maintenance & Storage of record	34

ACRONYMS

AEHDAO	Afghanistan Educational & Health Development Aids Organization
AFN	Afghani (Local currency)
BOT	Board of Trustees
GD	General Director
FD	Finance Director
PM	Program Manager
PRM	Project Manager
FM	Finance Manager
FO	Finance Officer
AO	Admin Officer
MO	Main office
PO	Provincial Office
FO	Field Office
USD	United State Dollar

Introduction

Excellent financial governance is a necessity for AEHDAO and is the responsibility of the entire team. AEHDAO's policies are meant to provide a necessary structure, a basis for internal control mechanisms, and to maximize staff and Project Coordinator efficiency. Furthermore, they are meant to streamline the organizations' operations.

The financial and administrative policies and procedures ensure that accurate and reliable financial data is processed and generated by AEHDAO on a timely basis in order to meet our funders' strict reporting deadlines. In addition, they provide accountability to government, corporate and individual donors. Donors require 100% verification of expenses against receipts. If there are lapses in the system, it can cause concern about the financial integrity of the organization. This, in turn, can lead to greater issues (for example, disallowance of legitimate expenses) that could potentially harm AEHDAO's overall image with donors.

The finance department of AEHDAO has attempted from the commencement of its establishment to contribute in successful implementation of programs as a strong supporting unit. Therefore, this department has developed Finance Regulations and policy with procurement procedures for further assistance to our program in line with internationally accepting accounting/financial principles.

1. Article 1: Applicability

These regulations shall govern the financial management of the AEHDAO and shall, unless otherwise provided by the GD or as otherwise specified in these Regulations, apply to all resources, funds and programs managed and implemented by AEHDAO.

Amendments and exceptions to these Regulations may be made on the recommendation of GD and endorsement by BOT whenever needed.

These Regulations and its amendments shall become effective from date officially signed and stamped by AEHDAO Chair of BOT.

In regard to any matter not specifically covered by these Regulations, the appropriate provisions of the AEHDAO Financial Regulations shall apply.

2. Article 2: Accountability

Finance Department is fully responsible and accountable to the GD for all phases and financial related aspects.

AEHDAO will open a Bank Account to which all receivable in cash shall be credited and against which all expenditures will be paid. FM under the direct supervision of GD shall be responsible for the administrative maintenance of mentioned rules and regulations.

All personnel of AEHDAO are responsible for the regularity of their actions taken by them in the course of their official duties to the PM and GD. Any staff member who takes any action in breach to these Financial Rules and Regulations or to the instructions, which may be issued in connection therewith, may be held personally responsible and financially liable for the consequences.

3. Article3: Internal control

Internal Control

FD directly supervised by GD shall maintain an Internal Financial Control mechanism, which shall provide an effective current examination and review of financial, management, and operational activities, in order to ensure:

- The regularity of the receipt, custody, expenditure, accounting and reporting of all financial resources administered by AEHDAO, and the effectiveness of existing internal control and accounting systems.
- The conformity of expenditures with the purposes for which funds were appropriated or otherwise provided by the Board of Trustees and the financial authorizations issued there under, or with the purposes and rules relating to other funds managed by AEHDAO or with agreements of the funding agencies and other entities.
- The compliance of all financial activities and transactions with established regulations, rules, policies, procedures and administrative instructions.
- The effective and efficient management of AEHDAO and the effective, efficient and economic use of AEHDAO resources, funds managed by AEHDAO.

GD in consultation with BOT shall be responsible to assign a committee to have free access to all finance books whenever it is required. The assigned committee will have the authority to audit the performance if it is necessary. The reviews of the assigned committee will be conducted in accordance with generally accepted auditing standards, and shall provide comments and recommendations to the PM and GD on financial and management activities.

4. Article 4: General framework

PM and GD are responsible and accountable for planning and use of AEHDAO resources and issuing financial authorizations effectively and efficiently in furtherance of the policies, aims and activities of AEHDAO.

5. Article 5: Budgeting

5.1 Budgeting

'A budget describes activities AEHDAO plans to conduct together with sources of fund to conduct these over a given period of time.'

The budget performs the following functions:

- it translates organizational work-plan into numeric statements
- it expresses AEHDAO policies in terms of specific activities
- it provides guidelines for program performance
- it sets limits of expenditures in specific areas of activities
- it establishes staffing requirements for administration and field staff for AEHDAO Program
- it provides one of the means for monitoring performance and evaluating final outcomes of AEHDAO Program.

5.2 Who will need budgets?

Budgets shall be used by different people in AEHDAO for different purposes.

- The GD needs the overall budget because he/she has to formally approve it and monitor its progress. To keep an eye on the progress of the whole organization and the funding situation.
- PM's/PRM's need budgets to oversee the implementation of their project/program activities.
- Fundraisers need budgets to accompany funding applications.
- Finance staff needs budgets to make sure there are enough funds in the bank to cover anticipated expenditure. Finance staff also includes; Field Accountants/Finance Officers.
- Donors need budgets so they can see how AEHDAO intends to spend its grants.

5.3 Budget preparation

Two types of budget are prepared in AEHDAO:

1. Annual Budget;
2. Project Budget.

1. Annual budget

Annual budget shall be based on AEHDAO's long term plan and its break down into annual work plans, wherein areas in which AEHDAO shall be working has been defined in detail. This budget will be based on the long term commitment of the donor, if any. In case where there is no such long term commitment of the donor, then AEHDAO shall prepare its annual budget based on the fixed cost which it has to cover plus the current projects which are being awarded to AEHDAO. Therefore, the annual budget may have the following aspects:

- The annual AEHDAO program budgeting shall be carried out in the last quarter of the year.
- A meeting of the Senior Management shall be conducted where inputs from the department heads shall be obtained.
- The senior management shall develop a detailed financial plan for the subsequent year
- This plan shall be presented to the Board of Trustees for their necessary inputs
- Based on the inputs of the BOT, the Finance and Program department shall make the necessary revisions in the budget and shall submit the revised budget to the GD for review.
- The revised version once reviewed by the GD shall be submitted to the BOT for their approval
- Once approved, the annual budget shall be communicated to the Senior Management.

2. Project Budget.

Project budget shall be made in accordance with and on the format of the respective donors for a particular project/program.

The procedure to be employed is set out below:

- It is GDs' and PM's/PRM's responsibility for exploiting opportunities for new projects that AEHDAO can implement.
- With the help and consultation of GD, PM/PRM shall gather estimated data and will prepare a preliminary budget in collaboration of FD.
- The budget after approval by GD shall be submitted to the donor and a copy of the same to be retained for record purpose.
- System generated reports shall be used for control and monitoring of the budget.

5.4 Changes in budgets

Changes in the overall budget should be as far as possible minimal.

In Project budget funded by other Donors:

- It will be the responsibility of the PM/PRM to identify new line of activities that are necessary, expansion/deletion of activities and other strategic issues to be included or excluded from a project.
- For any suggested changes in the Project budget, a committee shall be structured comprising the following officers at least;
 - GD
 - PM
 - PRM
 - FD
- The necessary revision in the Project budget shall be suggested by the PM/PRM. The final decision for the revision rests with the committee. The committee may allow or disallow the revision in the Project budget.
- Subject to the provisions of any contract with a particular donor (s), new budget for activity must be approved by the GD.
- Identification of amendment should be discussed by the management as soon as needed.
- The proposed change shall be communicated to the donor for prior approval of the change to be incorporated in the Project budget.
- The GD shall after the approval of the change from a donor direct the FD to incorporate the required change and make the revision.
- The revised budget should be promptly communicated to the concerned program and field offices.
- The said revision should also be incorporated into accounting system soon after the change has been approved.
- There should be a review mechanism and the PM should be given the responsibility to identify new areas where projects can be undertaken.

5.5 Budget Monitoring and Variance calculation

On a Quarterly basis the FM shall compare the actual cash flows with the budget and shall submit the report to the FD for the projects

Where there is material variance 10% or more, the FM and respective departmental head shall write an explanatory report to GD and on the basis of this, corrective action will be taken by the GD.

The FM along with PM/PRM's shall conduct quarterly reviews of the budgets. This will be done with the view of the following:

- To identify areas of gross departure from budgeted amounts and determine the underlying causes and make reallocations accordingly where possible
- To accommodate changes in the foreign rates and changes in Government policies to the extent they have a bearing on the budget.
- To reveal deviations from the budget or any misuses or abuses and identify areas where corrective actions will be taken.
- To communicate the same to the donor in order to obtain donor's approval for any deviation in due time
- To reveal how effective, the implementers of the budget and how successful AEHDAO's financial planning for the future has been.

6. Article 6: Accounting system

6.1 Accounting system

AEHDAO is using QuickBooks for recording all its financial activities with appropriate dimensions for its use and reporting requirements. The QuickBooks accounting software has been customized to cater all the reporting requirements of AEHDAO and donor bodies.

6.2 Chart of accounts

The most important organizing tool for the accounting and reporting processes. To make sense of all of this financial activity, it helps to 'sort' the different types of income and expense into a series of pre-determined categories or accounts. These accounts are listed in the AEHDAO's Chart of Accounts and are typically arranged in a logical order: Income and Expenditure, Assets and Liabilities.

Chart of Accounts is a list of all the account codes and cost center codes that is the significant component financial system of an organization. The FM in coordination with FD should develop a comprehensive Chart of Accounts and should ensure that all the account heads and costs centers identified in the budget are created in CoA in order to classify transactions according to their budget and cost center. The chart of accounts must also meet the needs of the AEHDAO's donor requirements

QuickBooks Accounting software provides the best possible solution in following ways:

- **Ease of use:**

Today, most accounting programs offer the user a straightforward, simple interface to help monitor accounting data with ease and speed. Even individuals with little to no experience in accounting can feel assured that information is entered correctly. The data-input points in most software will correct or ask for confirmation if something appears to be entered wrong. This feature alone can save hours of labor.

- **Reporting:**

Most accounting programs have reporting functionality. This allows the company owner to assess the present state of business at any given point with just the click of a button. The enhanced flexibility of having precise data enables the user to make informed and educated financial decisions.

The software also provides following important features:

- User friendly,
- User authorization controls,
- Multi-user environment,
- Multi-currency option,
- Compatibility with MS Office,
- Documents customization options,
- Project-wise reporting,

- Department/location wise reporting,
- Project-wise budget variance analysis,
- Customized report generation,
- Stock/Inventory control/tracking,

7. Article 7: Accounting for Non Expendable

7.1 General

This section sets out the policy and procedures regarding procurement, depreciation, disposals, recognition, recording and control over Non expendables/assets items. Like cash or commodities, assets are important resources of the organization. AEHDAO offices have an obligation to properly track, maintain and report on all purchased or donated assets. In some instances, AEHDAO may be obligated to return assets which have been purchased with donor funds and therefore bears a financial risk for the inability to properly account for these items.

For the purpose of this section, Non expendables are those items which have been acquired for the smooth running of AEHDAO activities.

7.2 Accounting policy

Subject to the specific requirements of any other donor, as per current practice followed by AEHDAO, total cost of Non expendables purchased out of grants shall be charged to expenditure during the year of purchase.

Subject to restrictions of any donor, Non expendables items procured or acquired by AEHDAO shall be classified in the light of criterion described below for record purposes.

Criteria	To be classified as Non expendable Items
Useful Life	More than one year, and
Cost of item	Over USD 100 or equivalent in AFN
Improvement	Increases capacity, efficiency earning or useful life

It is to be noted here that the above criteria shall not apply to the “Furniture and Fixture” and “Computer Peripheral”. These two categories shall be included exceptionally in the list of Non expendables irrespective of the above recognition criteria.

Following items shall not be constituted as Non expendables regardless of the total useful life of the assets:

- Calculators
- Stapler machine
- Binding machine, punch machines
- Landline Telephone sets
- Wall clocks
- Notice boards

7.3 Non Expendable Record

“**Memorandum Record for Non expendables**” shall be maintained for control purposes.

The Non expendable item record described above shall be maintained by the “Admin Officer” in MO and field offices.

In case of addition, deletion or transfer of any Non expendables items, the record shall be updated by AO.

7.4 Acquisition of Non expendables

Subject to any procedures defined by any Donor body, Non expendables items shall be purchased according to the procedure mentioned in procurement manual.

7.5 Disposal and sale of Non-expendables

Subject to the rules and Regulations for the disposal of Non expendables items implemented by Government of Afghanistan and any Donor Bodies, if any item is considered obsolete, the concerned section shall inform Procurement Section in writing to make the necessary arrangements for sale of the item (s) by issuing **Disposal Request Form**.

Where a Non expendables item (s) is approved for sale, it must be liquidated in such a manner as to maximize AEHDAO’s returns. The most common and competitive method is an auction.

The concerned section/unit or office shall hand over the items to be sold out to the Stock Officer or the procurement section.

A committee shall be constituted for auction of the items to be sold out.

Members of the committee shall be decided by the GD with assigned responsibilities.

The committee shall inform the potential buyers stating the following minimum details:

- What is to be auctioned?
- Where and when the item(s) may be inspected.
- The procedure for inviting tenders
- Where and when offers will be opened.
- Terms and conditions of sale and payment.
- AEHDAO's contact person and address.

Potential buyers should be instructed to submit sealed offers. AEHDAO may conduct the auction but if high value items, like vehicles are to be sold, then auction must be performed in accordance with the Government regulations as mentioned the NGO Law.

The quotation obtained from different bidders shall be opened in front of the committee. The committee shall organize for all sale items to be available for public inspection at an appointed time and place.

If the field Offices, where the items are to be auctioned, find suitable offers from bidders, then they shall follow the above procedure and will auction those items in their respective offices to avoid the transportation cost. In this case they will be required to submit the detailed documents to the MO.

On disposal or sale of items, the Finance Section in MO will take in to consideration cash, cheque or demand draft against the amount of sale proceeds.

On receipt of sale proceeds, receipt voucher (cash or bank) for recording cash/bank receipt shall be prepared, approved and posted into the system and a **Disposal Form** shall be filled in order to conclude the disposal.

7.6 Inter Office Transfers

In case of any Non expendables item is to be transferred from one location to another, a "Non expendables Transfer letter" shall be prepared by the Administration Section and will be accompanied with **Non expendables Transfer Form** and the items to be transferred to

the concerned section or field office. The form shall be in duplicate and when the items are received in that particular office or location shall be acknowledged and filed for future reference in both offices.

7.7 Control over Non expendables

Every Non expendables item shall be assigned a unique identification mark called “Inventory Number” which shall be affixed to each item with a reference in the record mentioned above.

The AO will conduct periodic count (physical inventory) on annual basis of all the Non expendables items and will submit the report of his/her findings to operation department for further action.

The operation department shall after analysis of the above, submit the said report to GD.

To ensure the physical existence of Non expendables items, the operation department can assign any Officer to conduct physical verification of Non expendable items at the end of a year or when desired and to submit a report of his/her findings.

The GD can also assign any officer or independent member of any Professional body of Accountants to conduct surprise physical inspection of Non expendable items at any time, as he/she may deem fit.

7.8 Unique Identification Code

A unique identification code is assigned to each individual Non expendable item at the time of receipt. These codes show the item number that helps the management in tracing a particular item. These codes shows the fixed assets item number, year of purchase, donor source, project title (in abbreviation), and its location etc. The code is then pasted on asset for easy identification and references. Fixed assets codes include the following information:

- Serial number / code
- Donor Source;
- Project Title (in abbreviation). ▪ Year of purchase; ▪ Location.

8. Article 8: Income

8.1 General

This section sets out the policy and procedures for recognition and recording of Income.

For the purpose of this section, Income in AEHDAO perspective includes Grants and Funds from donors and any other Income from other sources.

Income from Grants and Funds shall be restricted to be utilized in the projects under consideration.

Income from own sources, if any shall be utilized for any unplanned activities or any kind of contingencies not covered and secured through donor funding. It is to be noted that such income when accumulated shall not be used for private purposes.

8.2 Accounting Policy for Income recognition

Subject to the condition of any donor, Income on account of grants and funds shall be recognized up to the extent of expenditure incurred. Any excess or shortfall of funds shall be recognized as payable to or receivable from donors.

Subject to the conditions of any donor, income from other sources shall be recognized when services are rendered.

8.3 Procedure for recording income

On receipts of intimation for transfer of funds from Donor, the FM shall confirm the amount so received from the bank and will compare the actual amount transferred with the amount due to is received.

The difference between the amount due and amount received shall be classified into Bank charges or exchange difference and be recorded in the system accordingly.

On receipts of any other income, the cashier shall count the cash receipt and ensure that the cash so received is in agreement with the supporting documents provided.

For recording and updating of records/books of accounts, all the provisions mentioned in the Cash and Bank Section should be followed.

9. Article 9: Expenditure

9.1 General

This section sets out the policy and procedures to be followed for recognition, approval and payments of expenditure.

For the purpose of this section, Expenditure means and includes properly approved and legitimate cost incurred for AEHDAO activities.

All expenditure should be properly authorized and Finance Section has to consider:

- The necessity of the expenditure; whether it serves the objectives of the project/program;
- The reasonableness of the expenditure;
- Whether an item is budgeted for; and
- Whether it is supported by sufficient and adequate supporting documentation.

Expenditure shall be classified in accordance with AEHDAO's Chart of Accounts.

Expenditure should be accounted for under the correct account codes, which reflect to the output and activities of the project/program. The FM and PRMs shall check and ensure its correctness.

Subject to the provisions of contract with any donor, total actual expenditure for each budget line should not exceed the budgeted amount unless such an exceeding is justified and approved.

9.2 Accounting policy

Expenditure shall be recognized on accrual basis i.e. as and when these are incurred.

All expenditure shall be approved using the following approval grid.

Amount (Per Single Transaction)	Approving Authority	
	Grade	Titles
Up to USD 1000 or AFN equivalent	Grade 3	Technical/Project Manager
Up to USD 2000 or AFN equivalent	Grade 2	Program/Project Managers

Up to USD 3,000 or AFN equivalent	Grade 1	Directors/Project Managers
USD 3,000 to USD 30,000 or AFN equivalent	General Director	General Director
Above USD 30,000 or AFN equivalent	General Director + Grade 1	A committee consisting of GD and two directors

Detailed Policy and procedures for the following expenditure have been mentioned in their respective sections.

- Salaries and benefits (HR Policies & Procedures);
- Materials, supplies and other administrative expenditure (Administration Logistics & Transportation& procurement);
- Capital expenditure on Non expendables (Financial Policies & Procedures& procurement);
- Professional services (Financial Policies & Procedures)

9.3 Procedure for financial expenditure

Financial expenditure shall comprise of the followings:

- Interest on loans/debts, if any;
- Bank charges;
- Money transfer charges;
- Exchange loss;
- Minimum bank balance charges.

Upon receipt of information of financial charges, finance officer in main office and in respective Field Offices shall check the exact amount deducted/withheld, and prepare voucher there against.

The above transaction shall then be incorporated into accounting system in MO and in the respective cash books/Ledger of Field Offices;

9.4 Supporting documents for expenditure

Supporting documents shall be classified into the followings:

- External Supporting Documents;
- Internal Supporting Documents.

External Supporting Documents include Invoices and bills raised by the suppliers/vendors. Internal supporting Documents shall be prepared for those expenses which cannot be supported by external supporting documents.

9.5 Taxes

AEHDAO shall deduct all applicable taxes and shall deposit the same in the concerned department of Ministry of Finance.

The taxes shall be deducted in accordance with the Afghanistan Tax Law and shall be deposited as per the provisions of the said law.

10. Article 10: Procurement of goods, services and authorization levels

The Procurement/Logistic Officer under Operation Unit is responsible and accountable for carrying out the procurement functions of AEHDAO effectively and efficiently in furtherance of its mandate and activities.

The procurement functions include all actions necessary for the acquisition, by purchase or lease, of property, including products and real property, and of services, including works.

The following general principles shall be given due consideration when exercising the procurement functions of AEHDAO:

- Best value for money;
- Fairness, integrity and transparency;
- Timely provision of goods
- Effective competition to purchase the best quality with low price;

10.1 Authorization for Approval

For the purposes of smooth and quick purchase, the approval authority grid explained above shall be followed.

- If there is any special requirement or terms of donors regarding the above mentioned levels of approval authority, it must be considered for each specific donor and project.
- All partnership agreements, contracts, MoUs must be signed by GD or his/her designee at main office.

10.2 Procedure

Procedure required to be carried out for procurement are detailed in Procurement manual.

11. Article 11: Cash flow planning and liquidity management

11.1. Cash flow Planning

In order to ensure that adequate cash is available to fund operations, it is critical that Field Offices plan their cash needs carefully. Advances from donors should always be sought and offices should plan sufficient lead time for funding requests to MO.

Field offices may request up to 30 days of cash needs based on the monthly cash flow projection. Cash may be drawn at any time during the month or may be requested in tranches. Offices in highly insecure locations should request smaller amounts more often to minimize the amount of cash on hand.

Fund requests are to be made monthly and shall be submitted to MO within one week of the month end. **Fund Request Form** should be used for this purpose.

Request for advance of funds shall be signed by the PRM/Office Manager and shall be approved by the FD. However, it should be noted that the FD shall not approve any fund request if the details of previous fund expenditure is not submitted by the Field Office.

FM in MO shall check the request for advance of funds from Field Offices against availability of budget and work plan. If within budget, the FM shall transfer the funds to the respective banks of the Field Offices. Any deficiency or discrepancies of fund shall be brought into the notice of FD who shall discuss the matter with GD for timely resolution.

11.2. Liquidity management

11.2.1. Reserves:

Objectives

AEHDAO will maintain a designated Operating Reserve Fund to achieve the following objectives:

- To enable the organization to sustain operations through delays in payments of committed funding and to accept reimbursable contracts and grants without jeopardizing ongoing operations;

- To promote public and donor confidence in the long-term sustainability of the organization by preventing chronic cash flow crises that can weaken its reputation and force its Management to make expensive short-term, crisis-based decisions; and
- To create an internal line of credit to manage cash flow and maintain financial flexibility.
- To utilize these reserves for the projects within AEHDAO's goals however not supported by any donor.

What are reserves

Operating reserves are essentially the accumulation of unrestricted surplus that are available for the activities not specifically supported by any donor after the approval of the BOT. The presence of an operating reserve increases an organization's ability to absorb or respond to temporary changes in its environment or circumstances, for example the unanticipated event of significant unbudgeted increases in operating expenses and/or losses in operating revenues. In volatile economic times, an operating reserve could sustain an organization through delayed payments or cutbacks in funding from government agencies or foundations. Moreover, the fund can also be used in emergency response to disasters.

Sources of reserve

AEHDAO shall create its reserves from the following main sources □ Excess of Admin Cost charged as lump sum against projects

- Consultancy and other services provided to other organization not being part of any project
- Proceeds on account of disposal of its assets, if not transferred to donor and are not subject to any governmental restrictions
- Social events and the surpluses earned there against
- General and un restricted donations
- Bank account profits
- Penalties, fines and damages charged to employees for severe misconduct
- Any other source not effecting donor or governmental regulations.

Procedure for creating a Reserve

- Reserve shall be created with the approval of BOT
- Reserve shall be created in designated bank account in the name of AEHDAO and shall be savings account

- Any amount that has to be taken to reserve account shall require the approval of GD
- No expense shall be charged to the reserve account without the approval of BOT.

11.2.2. Inter project loans

In order to ensure that the activities of projects are being carried out without any disruption, inter project loans can be extended. This will enable AEHDAO to manage the liquidity of a project resulted due to temporary delay in receiving the required funds. It is to be ensured by the management that such inter project loans are extended only if the funds are expected to be received in near future with high probability. Moreover, such inter project loans may not disrupt the activities of the project from which the loan is extended. If there is explicit instruction from the donor not to use the fund for any other purpose what so ever, then AEHDAO has to find other alternated to manage the liquidity.

11.2.3. Loans from other sources

In order to ensure the liquidity and upon any restriction of inter project loans, AEHDAO may obtain loan from any other source deemed feasible only in unavoidable circumstances. GD is required to provide the approval for such loan.

The FD after the assessment of the situation, should send a request to GD for such loan indicating the terms of loan, its repayment schedule and sources for repayment of principle amount and interest.

Sources of loan

The loan can be obtained from

- personal contacts of GD/senior management
- from money exchanger
- any other reliable source deemed feasible

For such cases, it is important to have the terms and condition drafted in the form of a contract detailing the terms and condition and all necessary information. Such loans shall be paid as soon as the funds are received from the respective donor.

12. Article 12: Verification for payments

Finance Department verifies all payments made on behalf of AEHDAO; because all payments should be made on the basis of supporting vouchers and other documents which ensure that the services or goods have been received, and that payment have not previously been made.

The authorized signatories which are already mentioned in section of authorization levels shall have authority to approve all payments under all accounts as per budget.

The GD and PM designate certain staff in other business units as verifying officers, where appropriate.

Those staff designated shall have the responsibility to verify any payments and other financial transactions may be carried out on behalf of AEHDAO. The responsibility assigned to a verifying officer cannot be delegated.

A verifying officer shall approve a voucher for payment when it has been determined that payment had not previously been made.

It is supported by documents which indicate that the goods or services for which payment claimed have been received or rendered in accordance with the terms of the contract and the related obligation.

13. Article 13: Cash & Bank management

The Finance Department under the authority delegated by GD or PM is responsible and accountable for the effective and efficient management of cash resources in AEHDAO custody.

Cash management includes all actions necessary for receipt, deposit, advance, investment and disbursement of cash, including the designation of banks and opening and closing of bank accounts.

Funds shall be provided to all AEHDAO offices from the AEHDAO Bank Accounts.

The specific advance approval of the BOT shall be required for any advance of AEHDAO resources not authorized under the provision of these Regulations.

GD shall designate the initial signatories to operate AEHDAO bank accounts as well as the GD is authorized to amend the signatory panels.

All disbursements more than 500 USD or equivalent in Afghani shall be made by cheque or bank transfer, except to the extent that cash disbursements are authorized by the Finance Department or by a duly authorized staff member in main office. Cheques or payments instruction letters to banks shall be signed by **two authorized signatories**.

AEHDAO Main Office may obtain funds through remittances from Donors. Such remittances shall be limited, unless otherwise justified, to the cash-advance level established for each project.

Petty cash accounts may be made available to officials designated by the GD or his/her designate. The amount and purposes of each account shall be defined by the Finance Department; the amount shall be held to the minimum compatible with working requirements.

All bank accounts shall be in the name of AEHDAO.

Cheque books, in any case, shall remain under the custody of Finance Section.

Bank accounts should be as for as possible non-interest bearing.

Departing employees who are authorized as signatories on bank accounts should always be officially deleted before termination of employment from AEHDAO.

Monthly Bank Reconciliation Form should be used to reconcile each bank account. The purpose of this form is to reconcile the balance shown on the bank statement with the ending balance on the bank ledger or bank book. The form should not be used to restate the monthly bank activity, but should be used to show any outstanding transactions that occurred during the month but have not yet been reflected on the bank statement.

The prior month's bank reconciliation must be checked for any items that still remain outstanding. Transactions that remained unclear from previous months should be promptly researched with the bank or the payee.

Where banking services are not available, Field Offices should research alternatives to handling large volumes of cash. Western Union, authorized money dealer or hawala should be considered, however choosing an alternative must be a careful decision since these systems rely largely on trust and can be expensive. Other agencies or donors operating in the area should be consulted for recommendations or alternatives.

When using the services of an authorized money dealer, an agreement which carefully outlines the procedures and authorities is required. The agreement should state, at a minimum, who is authorized to request money from the dealer and who is authorized to receive funds, along with the specific procedures and documentation required to release funds. These arrangements may operate on an advance basis (i.e. the dealer advances the cash and AEHDAO reimburses the dealer through an off-shore account) or on a reimbursement basis (i.e. the dealer releases the funds locally after the funds have been wired by AEHDAO).

Cash in hand limits shall be as follows for Main office and field offices:

Office and currency	Cash in hand limit
Main Office: Afghani account USD account	AFN 500,000 USD 5,000
Field Offices: Afghani account USD account	AFN 500,000 USD 3,000

Administration and Procurement sections of AEHDAO Main Office are authorized to make request in advance for monthly Petty Cash which must not exceed 2000 USD or equivalent in Afghani per month. Next advance request for petty cash by Administration and Procurement sections of the organization will only be valid when they clear and adjust the advance petty cash for the previous month. For details of expenses which should be made from petty cash and calculation of advance request for monthly petty cash, please refer to Organization Operation Manual.

Cash in hand shall be checked on daily basis and be reconciled with books and records. Cash counts should be performed on daily basis.

Control Statement should be used and filed appropriately.

Petty cash should only be paid/spend for official work.

The Petty cash should only be extended after request in writing has been duly submitted to FM.

Old Petty cash balance should be cleared before new cash is received.

The number of Petty cash holders should be limited to possible minimum extent.

Petty cash should never be used for private purposes.

All offices are required to use a safe for the storage of office cash. Safes should be large enough so that they may not be easily removed and should be bolted down.

Safes should be discreetly placed and kept in locked or barred offices.

Access to the safe should be strictly controlled. Safes must have two locks, keys should be kept separately by cashier and another designated finance person.

Administration and Procurement sections of AEHDAO Provincial Offices are authorized to make request in advance for monthly Petty Cash which must not exceed USD 2,000 or equivalent AFN per month. Next advance request for petty cash by Administration and Procurement sections of the Provincial offices will only be valid when they cleared and adjust the advance petty cash for previous month.

14. Article 14 Advance Payments

This article sets out the policy and procedures regarding extensions and adjustments of loans and advances issued to employees for personal and official purposes.

Except where normal commercial practice or the interests of AEHDAO so require, no contract shall be made on behalf of AEHDAO which requires a payment or payments on account in advance of the delivery of products or the performance of contractual services. Whenever an advance payment is agreed to in accordance with AEHDAO administrative instructions issued by the controller, the reasons therefore shall be recorded.

Progress payments may be permitted pursuant to normal commercial practice or in the interests of AEHDAO, in accordance with administrative instructions issued by the controller.

14.1 Policy for personal advance

- Personal loans or advances shall be extended to permanent employees only on the approval of head of department and FD in main office and provincial project manager in field offices. Exceptional cases need approval of GD.

- The loan or advances shall not exceed one-month salary of the Permanent employee and shall be adjusted within the following three months.
- Request of new loans or advances must not be entertained before the settlement of any previous outstanding loans or advances.

14.2 Procedure

- The Employee shall submit **Advance Request Form** to the cashier who will scrutinize that no previous advance is outstanding against him or her, upon checking the record.
- The request form then shall be submitted to head of department for certification.
- The amount so requested shall be checked by finance and approved by the relevant approving authority.

14.3 Policy for official advance

Official advance shall be extended to employees for the following:

- Advance for travelling.
- Advance against purchases.
- Advances for any other official activity.

Head of department and finance shall estimate the required amount based on needs for each specific case. The advances shall be approved as per above approving authority grid.

Request of new advance must not be considered before the adjustment of any previous outstanding advance. However, in exceptional circumstances where the procurement section needs, the reasons to be recorded in writing, this rule may be over ruled.

Official advances shall be adjusted within seven working days after completion of the assigned task.

14.4 Procedure

- The Employee shall submit **Advance Request Form** to the cashier who will scrutinize that no previous advance is outstanding against him or her, upon checking the record.
- The request form then shall be submitted to head of department for certification.
- The amount so requested shall be checked by finance and approved by the relevant approving authority.

The amount so requested shall, after the approval from the Competent Authority, be paid to the employee by the Cashier/Finance Assistant.

Advance against travelling shall be extended after submitting the **Travel Approval Form**.

Advances that are not settled in prescribed time shall be adjusted from the concerned employee's salary after two reminders.

15. Article 15: Accounting and book keeping

The Finance Department shall submit financial statements in respect of the AEHDAO Regular Resources Account, the Other Resources Account and in respect of all Funds and Programs administered by AEHDAO, in accordance with the Accounting Standards showing:

- Income and expenditures.
- Assets and liabilities, reserves and resource balances.
- Statement of cash flows.

Double entry book keeping system shall be maintained taking into consideration, the debit and credit aspects of a transaction.

Voucher shall be prepared for every transaction. Following types of vouchers shall be prepared, depending upon the nature of the transaction:

- Cash Receipt Voucher;
- Cash Payment Voucher;
- Bank Receipt Voucher;
- Bank Payment Voucher; and
- **Journal Voucher**

Vouchers shall be prepared by the assigned staff and will be supported by sufficient and appropriate evidence, which may include but not limited to:

- Invoices and bills;
- Contracts;
- Quotations;
- Requisitions;
- Purchase orders;
- List of assigned Purchase Committee;
- Expense claim form;

- Approval letters/ emails; □ Any other document.

All the vouchers will be checked and approved by the competent authority.

Each and every transaction is classified on the basis of all or some of the following criteria before being recorded. Each voucher includes the following information:

- Voucher type
- Currency
- Date
- Donor
- Agreement
- Location (to which transaction relates and not where it is incurred)
- Project/Cost Centre
- Name of Payer / Payee (employee or other name)
- Account code
- Amount (original currency)
- Exchange rate

Vouchers should be pre printed prepared in duplicate. Voucher number is designed in alpha numeric form i.e. Voucher type, Location and voucher number For example, a voucher for bank payment in Kabul will be BPV-KBL-01, A voucher for cash payment will be CPV-KBL-01.

The FM shall also give such other information as may be appropriate to indicate the current financial position and shall maintain such accounting records and other records as are necessary to report to the PM and/or GD on the financial status of Funds and Program administered by AEHDAO.

The financial statements shall be presented in Afghani. Accounting records may, however, be kept in such currency or currencies as maybe required or deem necessary.

Separate accounting records shall be maintained for all reserves within the AEHDAO Accounts.

The financial period for the purpose of incurring and accounting for expenditures in respect of AEHDAO program activities, shall consist of a single calendar year starting from 1st January (11-Jadi) and ending on 31st December (10-Jadi).

AEHDAO FM may, after full investigation, authorize the writing-off of losses of cash, stores and other assets, provided that a statement of all such amounts written off shall be

submitted to the GD and Board of Trustee with the accounts. The FM may establish, from time to time, an amount below which full investigation and formal write-off are not required. Such amounts shall, for administrative efficiency, be charged directly to the relevant allotment/budget line.

The financial statements shall be submitted on monthly basis or whenever required by the management for examination and opinion.

The accounting and other financial records and all supporting documents shall be retained for such periods as may be agreed with the Donor and Board of Trustee, after which, on the authority of the Controller, such records and documents may be destroyed.

Gains or losses resulting from exchange adjustments shall be recorded separately as an offset to these contributions.

Exchange adjustments arising from other financial transactions shall be recorded separately as miscellaneous income or expenditure, as appropriate.

The proceeds from the sale of property shall be credited as miscellaneous income to the source of funds originally charged with the purchase thereof, except:

- Where a property survey board has recommended the application of these proceeds directly against the purchase price of replacement equipment or supplies, any excess shall be taken into account as miscellaneous income.
- Where normal practice is to secure and use certain material or equipment in connection with a contract and to salvage and sell such material or equipment at a later stage, the FM may authorize the crediting of these proceeds to the account from which they were procured, provided that the account has not been closed;
- When the proceeds from the sale of surplus project equipment shall be credited to the accounts of that project provided that they have not been closed
- Where equipment is transferred from one project for use in another and the accounts of the releasing project are open, the fair market value of such equipment shall be credited to the accounts of the releasing project and charged to the accounts of the project receiving the equipment.

16. Article 16: External Audit

The External Financial Audit will be conducted annually with consultation of AEHDAO Board of Trustee by the Board of Auditors, and the board of auditors will provide AEHDAO reports together with the audited financial statements.

16.1. Accounting policy

Subject to any specific reporting deadlines, within three months of the end of financial year, annual accounts of AEHDAO shall be audited by independent external Auditors.

Provisions of contract with donor shall be followed for the Project audits.

16.2. External audit purpose and scope

An external audit is an independent examination of the financial statements prepared by the organization. It is usually conducted for statutory purposes (because the law requires it). External auditors may also be engaged to do other specific assignments, (e.g. a fraud investigation). The purpose of external audit is to verify that the annual accounts provide a true and fair picture of the organization's finances; and that the use of funds is in accordance with the aims and objects as outlined in the manual or constitution.

The purpose of an external audit is NOT:

- To act as a fraud investigation;
- To prepare the accounts;
- To provide a certificate to say "there are no problems"; Proof that internal control systems are effective; Evidence that accounts are 100% error free.

Although it is not the prime role of the audit to detect fraud, this may of course come to light during the checks that take place.

16.3. Appointment procedure

The selection and appointment of external auditors shall be in accordance with the procedure set out below:

An audit committee consisting of the following employees shall be formed:

- GD;
- FD; PM.

The Audit Committee as described in the preceding paragraph will oversee the appointment of the external auditor with the assistance of management.

The Audit Committee will ensure that tendering auditors receive information concerning AEHDAO, its activities, group structures, financial statements and the selection criteria. The tender will require the auditor to address the criteria, providing details of its capabilities and experience.

The Audit Committee will consider tenders and will short list firms.

The selection process will be objective and based on merit.

The Audit Committee will undertake reference checks.

AEHDAO will execute a formal letter of engagement with the auditor before any audit work begins.

16.4. Selection criteria

The Committee will develop a list of its needs, expectations and criteria for appointing of the auditor. The criteria will include:

- Actual and perceived independence;
- An understanding of the AEHDAO, its activities and the areas in which AEHDAO works;
- Past experience with AEHDAO, if any;
- The overall experience of the auditor within the NGO's sector;
- The caliber of the team and team leader proposed;
- The relationship between the audit partner and senior management; □ Fee proposal and structure;

Although the fee proposal is a relevant factor, it will not be the determining factor in selecting the auditor. The determining factor will be the ability of the auditor to provide an appropriate audit to the level and depth of the Audit Committee requests and to otherwise assist the Committee. AEHDAO seeks fees which are competitive but understands that the fee must be sufficient to undertake the audit in the appropriate manner. The auditor must be a registered company auditor with Afghanistan Investment and Support Agency (AISA) and a member of an accredited professional body.

Independence of the external auditor is a key component of the AEHDAO's Policy. This selection method must ensure that the auditor is independent and has appropriate expertise and experience to provide the audit services to AEHDAO.

16.5. The tender

The tender requirements will be determined from time to time by the Audit Committee but are likely to include a detailed capability statement indicating:

- The firm's capacity to perform the work in a timely fashion;
- History of similar work the firm has performed;
- Knowledge and experience of NGO's sector;
- Any factors which may impact on actual and perceived independence;
- Any potential conflicts of interest;
- An outline of the proposed audit program and/or work methodology;
- Details of the firm's organizational structure including a listing of key personnel;
- The qualification and experience of personnel to be assigned to the audit;
- Any other relevant information in support of the proposal; Proposals for lead partner and rotation policies; and Names of referees if required.

The firms will be required to submit a fee proposal which must identify:

- A flat fee to cover the proposed audit program and any potential variances; Any other relevant information.

16.6. Evaluations and award

- Short listed firms will be given the opportunity of visiting the AEHDAO's premises and meeting with management in order to obtain additional information which is relevant to the tender process.
- Short listed firms may be required to make a presentation to the Audit Committee.
- Auditors will be appointed for a fixed term as determined by the committee.
- No contract will exist or be deemed to exist until; at least, a formal appointment in writing is made.
- Auditors will be appointed as independent contractors and in no manner is a master servant, or agency, relationship to be construed to exist between the parties.

17. Article 17: Currency Exchange regulations

17.1. General

This section sets out the policy and procedures to be followed for the currency exchange and related issues.

AEHDAO activities are carried in various parts of Afghanistan. As monetary system in Afghanistan is not yet stable, multiple currencies are being used in business community in different areas. AEHDAO also keeps all the currencies required for the purpose of smooth functioning of its activities.

17.2. Accounting policy

Reporting currency for the purpose of annual financial statements shall be “USD”.

Other currencies used are Afghani & Euro.

Exchange gains and losses on foreign currency transactions are recognized as income or expense in the period in which they arise.

Expenditure incurred in currencies other than reporting currencies shall be converted into USD by applying monthly average exchange rate.

In case of Donor reporting, AEHDAO is obliged to follow the contractual obligations of the donors’ regulation.

17.3. Conversion procedure

When there is need for changing one currency to another and it is not possible through the bank due to lack of banking services or unfavorable exchange rate, the **Currency Exchange Form** should be used. FO shall obtain 2-3 different quotations each (either by telephone but if this is not possible, by going to the market). The currency exchanger’s name, address and telephone number should be written. The FM should select a suitable and reputable money exchanger with favorable rate.

Quotations for the conversion shall be called in case when the amount required to be converted is above USD 300.

The person approving conversion shall select the most favorable quotation (keeping in view quotation rate, security risk involved or any other matter).

If a quotation offering highest rate is not selected, reason will be written on the face of comparative statement or justification has to be attached to comparative statement.

The successful money exchange dealer shall be asked to bring the agreed converted currency to AEHDAO office, if possible, if the amount required to be exchanged is significant.

Payment shall be made to the money exchange dealer for the amount of the actual currency exchanged when he will bring the currency required.

18. Article 18: Maintenance & Storage of record

This section sets out the policy and procedures for Maintenance and Storage of Data and related issues.

For the purpose of this section “Accounting record” means and includes Cash books, Bank books, Vouchers, hard copies of financial ledgers, supporting documents to vouchers, etc.

18.1. Accounting policy

As a matter of policy AEHDAO shall retain records in accordance with section mentioned below.

AEHDAO should keep all its financial documents in the form of paper documents, microfilmed documents, or other media that could produce written documents i.e. scanned documents, etc.

18.2. Procedure

Hard copy shall be taken for each report generated from accounting software and shall be signed by the FM and be filed accordingly for ready reference.

Original vouchers of AEHDAO offices in Afghanistan should be stored in MO in a secure and organized manner. All original agreements relating to finance should be stored with Finance Section at MO.

Data backup shall be taken on bimonthly basis and shall be given to the Admin Section to store them in the AEHDAO’s safe.

All transactions within the AEHDAO finance units are confidential. FM shall take care of it.

If details of transactions regarding the standard reports are required, the concerned officials shall have access only to the details of the financial transactions of their relevant office.

It is not allowed to provide details of the transactions to the staff that are not directly responsible for the activity and its budget follow-up. Details of expenditure, particularly personnel cost, should only be released to the officer concerned. However, any details regarding all AEHDAO costs and financial documents should be provided to the GD and the Auditors.

It is strictly forbidden to disseminate information regarding financial transaction especially regarding personnel cost i.e. salaries and other benefits to any internal or external source unless the information fits one of the above categories.

18.3. Record Retention Period

Retention time periods are generally determined by donor regulations and legal requirements

Generally, all the record should be kept with the organization for a minimum of 5 years. Some of the record has to be stored permanently, based on the importance of such record.