Revisions and Updates to the Manual

Policies and procedures contained in this Manual are subject to modifications at least annually or whenever required by Program Steering Committee for manual revisions, deletions, additions and alterations. Manager FAA will be responsible to begin the process of such changes. Updates will be communicated to users via official e-mail. Upon receipt of new or revised information, the user can print and insert replaced pages with the superseded pages. New or revised policies and procedures become effective when issued unless otherwise specified.
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acronyms</td>
<td>viii</td>
</tr>
<tr>
<td>Definitions</td>
<td>x</td>
</tr>
<tr>
<td><strong>CHAPTER 1: INTRODUCTION</strong></td>
<td>1</td>
</tr>
<tr>
<td>1.1 Need for Sound Financial Management (FM) System</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Purpose and Scope of Manual</td>
<td>2</td>
</tr>
<tr>
<td>1.3 SBEP Objectives</td>
<td>2</td>
</tr>
<tr>
<td>1.4 SBEP Funding Streams</td>
<td>3</td>
</tr>
<tr>
<td>1.5 Financial Management Section at PMIU-SBEP</td>
<td>3</td>
</tr>
<tr>
<td>1.6 Job Description of PM Support Services</td>
<td>4</td>
</tr>
<tr>
<td>1.7 Job Descriptions of Manager FAA</td>
<td>5</td>
</tr>
<tr>
<td>1.8 Job Description of FAO</td>
<td>6</td>
</tr>
<tr>
<td><strong>CHAPTER 2: ACCOUNTING AND RECORD KEEPING AT PMIU-SBEP</strong></td>
<td>7</td>
</tr>
<tr>
<td>2.1 Accounting System</td>
<td>7</td>
</tr>
<tr>
<td>2.2 Connectivity to System-Application-Product (SAP) Software</td>
<td>7</td>
</tr>
<tr>
<td>2.3 Chart of Accounts</td>
<td>8</td>
</tr>
<tr>
<td>2.4 Basis of Accounting System</td>
<td>9</td>
</tr>
<tr>
<td>2.5 Fixed Assets (Property, Plant and Equipment)</td>
<td>9</td>
</tr>
<tr>
<td>2.6 Consumable Stores</td>
<td>9</td>
</tr>
<tr>
<td>2.7 Advances</td>
<td>10</td>
</tr>
<tr>
<td>2.8 Accounting Records</td>
<td>10</td>
</tr>
<tr>
<td>2.8.1 General Ledger</td>
<td>11</td>
</tr>
<tr>
<td>2.8.2 Journal Entries</td>
<td>12</td>
</tr>
</tbody>
</table>
2.8.3 Subsidiary Ledgers and Registers ................................................................. 12
2.8.4 Permanent Accounting Records ................................................................. 13
2.8.5 Cash / Bank Book ......................................................................................... 13
2.9 Policies for Maintenance of Accounting Records ........................................... 13

CHAPTER 3: ASSIGNMENT ACCOUNTS ............................................................... 15
3.1 Assignment Account for GoS Counterpart Funding ........................................ 15
3.2 Assignment Account for USAID Grant Funds ................................................ 17
3.3 Handling of Cheque Books ............................................................................ 20
3.4 Reporting and Bank Reconciliation ............................................................... 20
3.5 Documentation Related to Banks ................................................................. 21

CHAPTER 4: BUDGET PREPARATION AND APPROVAL .................................... 23
4.1 Budget Preparation and Approval Process ..................................................... 23
4.2 Estimates for GoS Counterpart Funding ........................................................ 23
4.3 Mechanism for Release and Deposit of GoS Counterpart Funding ................ 24
4.4 Estimates for Foreign Project Assistance (FPA) ............................................. 24
4.5 Budget Monitoring ......................................................................................... 25
4.6 Budget Revisions / Re-appropriations / Reallocation .................................... 26

CHAPTER 5: SUB-PROJECT PC-I ........................................................................ 28

CHAPTER 6: FIXED ASSETS ............................................................................... 31
6.1 Fixed Assets Register ..................................................................................... 31
6.2 Fixed Assets Recognition ............................................................................... 32
6.2.1 Purchased Assets ....................................................................................... 32
6.2.2 Acquisition of two or more Assets ............................................................ 32
6.2.3 Self-constructed Assets ............................................................................ 32
List of Annexures

Annex-1A  Monthly Statement of Expenditure for AG Sindh
Annex-1B  Monthly / Quarterly Financial Report
Annex-2   Budget Revision Request Form
Annex-3   Petty Cash Imprest Form
Annex-4   Petty Cash Reimbursement Statement
Annex-5   Cheque Book Register
Annex-6   Bank Reconciliation Statement
Annex-7   Asset Requisition Form
Annex-8   Goods Received Note
Annex-9   Asset (Inward and Outward) Register
Annex-10  Asset Issuance Form
Annex-11  Asset Transfer Form
Annex-12  Equipment Repair Request
Annex-13  Physical Count Sheet
Annex-14  Refund Authorization Slip for Retention Money
Annex-15  Physical Progress Report
Annex-16  Physical Progress Report
Annex-17  Sources and Uses of Funds
Annex-18  Uses of Funds w.r.t. Program Activities
Annex-19  Standard Form (SF) 1034
Annex-20  Budget Preparation Forms for GoS CounterpartFunds &FPA
Annex-21  SBEP Funding
Annex-22  Details of Capital and Operating Costs (non-salary)
Annex-24  Schedule of Assignment Account Cheques (vide MoF Budget Wing OM)
Annex-25  Travelling Expenses Claim Form
Annex-26  Store Register
Annex-27  PC-III (B) Form
Annex-28  SOPs for implementing SAP System in PMIU-SBEP
Annex-29  Internal Controls
Annex-30  Sample of Management Letter
List of Accounting Forms

4A  Purchase Order Form
4AA Budget Availability Review Clearance Form
4B  Claim Voucher (Bill)
4C  Commitment Advice Form
4D  Budget Head Register
4E  Sub-ledger – Payments
4F  Journal Entry Voucher
4G  General Ledger Cash Account / Payments
4I  Certification and Authorization Register
4J  Cheque Register
4L  Bank Advice Note
4M  Direct Credit Advice
4U  Payroll Register
5A  Receipt Voucher
6D  Monthly Reconciliation Statement
11A Liabilities Register
12C Register of Adjustments
13A Physical Asset Register
13B Physical Asset Form
<table>
<thead>
<tr>
<th>Acronyms</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AG</td>
<td>Accountant General</td>
</tr>
<tr>
<td>AGP</td>
<td>Auditor General of Pakistan</td>
</tr>
<tr>
<td>APPM</td>
<td>Accounting Policies and Procedure Manual</td>
</tr>
<tr>
<td>ASP</td>
<td>Assessment and Strengthening Program</td>
</tr>
<tr>
<td>CGA</td>
<td>Controller General of Accounts</td>
</tr>
<tr>
<td>DAO</td>
<td>District Accounts Officer</td>
</tr>
<tr>
<td>DDO</td>
<td>Drawing and Disbursing Officer</td>
</tr>
<tr>
<td>DPD</td>
<td>Deputy Program Director, SBEP</td>
</tr>
<tr>
<td>EAD</td>
<td>Economic Affairs Division</td>
</tr>
<tr>
<td>FAA</td>
<td>Finance, Accounts and Administration</td>
</tr>
<tr>
<td>FAM</td>
<td>Financial Audit Manual</td>
</tr>
<tr>
<td>FAO</td>
<td>Finance and Accounts Officer</td>
</tr>
<tr>
<td>FD</td>
<td>Finance Department Sindh</td>
</tr>
<tr>
<td>FM</td>
<td>Financial Management</td>
</tr>
<tr>
<td>GL</td>
<td>General Ledger</td>
</tr>
<tr>
<td>GoS</td>
<td>Government of Sindh</td>
</tr>
<tr>
<td>GRN</td>
<td>Goods Received Note</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring &amp; Evaluation</td>
</tr>
<tr>
<td>NAM</td>
<td>New Accounting Model</td>
</tr>
<tr>
<td>NBP</td>
<td>National Bank of Pakistan</td>
</tr>
<tr>
<td>OIE</td>
<td>Office of Infrastructure and Engineering</td>
</tr>
<tr>
<td>PC-I</td>
<td>Planning Commission Proforma-I</td>
</tr>
<tr>
<td>P&amp;DD</td>
<td>Planning and Development Department, Sindh</td>
</tr>
<tr>
<td>PD</td>
<td>Program Director, SBEP</td>
</tr>
<tr>
<td>PDWP</td>
<td>Provincial Development Working Party</td>
</tr>
<tr>
<td>PIFRA</td>
<td>Project to Improve Financial Reporting and Auditing</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>PILs</td>
<td>Project Implementation Letters</td>
</tr>
<tr>
<td>PMIU</td>
<td>Program Management and Implementation Unit</td>
</tr>
<tr>
<td>PSC</td>
<td>Program Steering Committee</td>
</tr>
<tr>
<td>PSDP</td>
<td>Public Sector Development Project</td>
</tr>
<tr>
<td>SAE</td>
<td>Schedule of Authorized Expenditure</td>
</tr>
<tr>
<td>SAP</td>
<td>System Application Product</td>
</tr>
<tr>
<td>SBEP</td>
<td>Sindh Basic Education Program</td>
</tr>
<tr>
<td>SBP</td>
<td>State Bank of Pakistan</td>
</tr>
<tr>
<td>SoE</td>
<td>Statement of Expenditure</td>
</tr>
<tr>
<td>SS</td>
<td>Support Services</td>
</tr>
<tr>
<td>TO</td>
<td>Treasury Officer</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>W&amp;S</td>
<td>Works and Services Department</td>
</tr>
</tbody>
</table>
Definitions

**Accounts Office:** Government accounting office functionally and administratively (in most cases) under Controller General of Accounts, making payments on behalf of government departments, carrying out accounting and pre-auditing. Typically include District Accounts Offices and Accountant Generals.

**Accounting Period:** Time period over which financial statements are prepared, normally a year, quarter or a month.

**Accounting Policy:** A set of specific rules and procedures which define how a particular transaction will be treated and accounted for in the books of accounts.

**Accounting Record:** Any document upon which accounting transactions are recorded or any other document issued or used in the preparation and processing of accounting transactions.

**Advance:** An amount paid to a supplier / contractor for the purpose of securing delivery of goods or services. The amount is paid at the outset of procurement process against security generally in the form of a bank guarantee.

**Annual Financial Statements:** A set of financial reports produced after the close of financial year to conform to regulatory requirements or best practices.

**Appropriation:** An allocation of funds to a spending ministry/department on the basis of Schedule of Authorized Expenditure authenticated under Constitutional procedure.

**Approval:** Permission given by an authority or a delegated authority to undertake a particular action such as incurring expenditure.
Asset: Future economic benefits controlled by the entity as a result of past transactions or other past events.

Assignment Account: A separate bank account opened in favor of a delegated authority in National Bank of Pakistan into which funds are released for specified purposes.

Attached Department: A department which has direct relation with a Division and has been declared as such by the Federal Government in Rules of Business and represented in the Chart of Accounts entity code.

Authorization: Approval given by an authority or a delegated authority for a particular payment to be made. In the context of Budget, the process of passing the Annual Budget Statement through the legislature for approval.

Budget: A statement of estimated receipts and expenditure for a financial year referred to as the Annual Budget Statement.

Capital Expenditure: For budget purposes, expenditure met from capital receipts, as Expenditure given by a particular grant number in the Chart of Accounts. In accounting terms, expenditure incurred for the purpose of acquiring, constructing or enhancing physical assets or on schemes of capital outlay, as given by the object code in the Chart of Accounts.

Cash Accounting: A method of accounting that records cash payments and cash receipts only.

Cash Balance: Amount held in a particular bank account at any point in time.
**Cash Flow:** Net movement in cash over a particular reporting period given by the sum of payments and receipts.

**Cash Flow Statement:** A financial report showing the net movement in cash over a particular reporting period (how and where the cash has been applied and from where it has been received).

**Cash Flow Forecast:** An estimate made of likely future cash flows based on historical patterns of expenditures and receipts, knowledge of expected payments (commitments) and collections (demands), and changes in Government policy and other factors.

**Certification:** A process undertaken by the delegated officer to verify (proper approval and validity) and audit (scrutiny against irregularities) a financial transaction before or after occurrence.

**Chart of Accounts:** A listing of codes issued by CGA on the basis of which accounting transactions are classified to provide meaningful financial information.

**Clearing Account:** A type of General Ledger account which is used to transfer a balance from one entity or process to another (includes exchange and settlement accounts).

**Commitment:** An obligation to make a future payment, the funds for which are reserved against the allocated budget of an entity on memorandum basis.

**Consolidated Fund:** All revenues received by the Federal/Provincial Government, all loans raised and all moneys received in repayment of any loan by that Government.

**Control Account:** A type of general ledger account which summarizes a number of transactions from a subsidiary ledger into a single balance.
**Delegated Authority:** An officer formally empowered by the responsible authority to perform a particular function.

**Development Expenditure:** Expenditure provided in grants relating to development projects undertaken to acquire, build or improve physical assets or develop human resources.

**Direct Credit:** A facility provided by the banks which allows salaries and other employee related payments to be made directly into the bank accounts of those persons without the need for an exchange of physical cash or cheques.

**Double Entry System:** A system of recording accounting transactions which requires all journal entries (inputs) to the General Ledger to be in balance, i.e. total debits equal total credits individually and collectively.

**Entity:** An organizational unit of Government from an accounting angle that prepares its own financial statements.

**Equity:** An accrual accounting concept defined as the residual interest in assets of an entity after the deduction of all its liabilities.

**Expense:** In terms of accrued accounting, a decrease in future economic benefits in the form of reduction of assets or increase in liabilities of the entity, other than those relating to distributions to Government as owner, that result in a decrease in equity. In terms of cash and modified cash accounting, outflow of cash arising as a result of payments issued in a given reporting period. It is also called the expired cost of an asset when benefits have been received and ended.
Financial Year: Financial year commencing from July 1st and ending June 30th, consisting of twelve monthly periods.

Fixed Assets: Assets characterized by their long-term or strategic purpose (more than a year) e.g. plant and equipment, buildings etc. In government accounting, assets are not capitalized and are cashed out at the time of acquiring; however, a memorandum entry is recorded.

Function: An element used in the Chart of Accounts, which provides financial information on particular economic activities according to the Government classification scheme.

Fund: A pool of money set aside and used for an intended purpose as provided by legislation or special orders.

Funds Available: A term used in budgetary control to describe the remaining budget allocated to an entity, after deducting outstanding commitments and actual payments.

General Ledge: Primary ledger in which accounting transactions are recorded in double entry format and from which financial reports are produced.

Grant: Funding provided to a Ministry or Department through the Schedule of Authorized Expenditure.

Internal Controls: A term used to describe the system of checks and balances to ensure that objectives of an organization are achieved economically, efficiently and effectively; there is adherence to laws, rules, policies and procedures, reliability of financial and other management information being generated, appropriate steps are taken for protection against fraud and for safeguarding of assets.
**Journal Entry:** A chronological record of accounting transactions with appropriate narration about the nature of transaction explaining the debits and credits. Information from the journal is posted to the General Ledger containing accounting transactions used in the double-entry recording system.

**Liability:** Future sacrifices of economic benefits controlled by the entity as a result of past transactions or other past events.

**Memorandum:** An account maintained separately. Information recorded in memorandum accounts is used to provide supplementary information to the Financial Statements. Assets, liabilities and commitments are recorded on memorandum basis.

**Modified Cash:** A method of accounting in which all cash payments and receipts are recorded in the main accounts whereas certain assets and liabilities/commitments that are recorded outside the main accounts in a memorandum form.

**Object:** Chart of Accounts element used to describe purpose of expenditure e.g. salaries, travel, transport etc.

**Obligation:** Legal requirement to honor terms of a contract rather than the term “commitment” which is used in its accounting context.

**Public Account:** Defined in Article 78 of the Constitution, as all other moneys received by or on behalf of the Federal Government, other than the Consolidated Fund, or deposited with the Supreme Court or any other court established under the authority of the Federation. The funds in public account are also called trust funds.

**Receipt Voucher:** A form containing the particulars of receipt. It also serves as an evidence for audit purposes.
Recognize: Reported on, or incorporated in amounts reported on the face of the financial statements of the entity.

Reconciliation: A process of substantiating/tallying recorded financial information against an alternative source of data (e.g. bank reconciliation, reconciliation between accounts offices and spending departments).

Statement of Revenues and Expenditure: A financial report consisting of balances of revenues and expenditures for an entity over a given reporting period.

Revolving Fund Accounts: Foreign Currency Assignment Accounts opened at the National Bank of Pakistan by Project Authorities for Foreign Donor money.

Supplementary Budget: Additional budget statement laid before Parliament, where funding for an existing service is insufficient or the need for a new service has arisen which was not included in the original budget.

CHAPTER 1: INTRODUCTION

1.1 Need for Sound Financial Management (FM) System

FM is a process which brings together planning, budgeting, accounting, disbursing, procuring, reporting, controlling, auditing and physical performance of a project with an aim to properly manage project’s resources and achieve development objectives.

FM is essential for donor funded projects. It is more than an administrative and control process. Sound FM is a critical ingredient for program success. Timely and relevant financial information provides a basis for better decision-making, thus speeding physical progress of a program through availability of funds and reduction in delays and bottlenecks. Sound financial management provides:

- Essential information needed by those who manage, implement and supervise a program, including government oversight agencies and financing institutions.
- Comfort needed by donors for accountability, transparency and efficient utilization of funds as per intended purpose.
- Deterrent to fraud, corruption and leakages, since it provides internal controls and ability to identify unusual occurrences and deviations.

In this regard, a pre-award assessment of the Education & Literacy Department, GoS and Reform Support Unit (RSU) was carried out by KPMG in October 2010 commissioned by USAID as part of the preparation of SBEP. The assessment covered areas like budgeting, accounting, financial controls and oversight. The assessment identified various risk factors in FM through RMF developed by USAID. The RMF envisaged that the FM system did not keep complete and accurate budgeting information, detailed record keeping, accounting, reporting and review features to cater with USAID accountability requirements. Therefore, need was observed to develop comprehensive FM Manual for PMIU to ensure financial integrity of funds managed by the GoS.
1.2 Purpose and Scope of Manual

Financial Management Manual is a comprehensive reference of policies, procedures and general information concerning financial operations of the Program Management and Implementation Unit (PMIU) of Sindh Basic Education Program (SBEP) funded jointly by USAID Pakistan and GoS. This Manual is intended for the use of staff of PMIU-SBEP to:

- Assist them in performing their duties and to provide control, accountability and transparency over financial affairs.
- Establish adequate control measures over activities of the Finance Section.
- Clearly define accounting, budgeting, management reporting and internal control policies and procedures that should be used effectively, efficiently and consistently to manage and regulate activities of these functions.
- Provide and maintain an up-to-date reference guide.
- Ensure uniformity and consistency in applying policies and procedures.
- Provide continuity to Finance Section’s functions to prevent disruptions to the Authority’s operations.

1.3 SBEP Objectives

Objective of SBEP is to increase and sustain student enrolment in primary, middle and secondary schools in targeted geographic locations in Sindh by developing a school environment conducive to teaching and learning. This transformation will be achieved through following components:

- Construction of schools affected by 2010 floods
- Support GoS to merge, consolidate and upgrade schools through construction
- Improvement in early grade reading in primary schools
- Community mobilization, with a focus on increasing girls’ enrolment and improving nutritional status of children
- Technical assistance to Education Department
- Monitoring and evaluation
- Construction design and supervision
1.4 SBEP Funding Streams

Under the Government to Government (G2G) mechanism USAID/Pakistan will provide US$81 million (approx. Rs7,047 million) to GoS for construction activities. The money will be used only for school construction works and furniture, fixtures, equipment, books etc.

Out of the grant funds, USAID will directly utilize US$74 million (approx. Rs6,438 million) to implement reading literacy, community mobilization, technical assistance to Department of Education, Monitoring & Evaluation (M&E) and Office of Infrastructure and Engineering (OIE) components. In addition to above, US$0.6 million (approx. Rs52.4 million) will be spent by PMIU, through GoS counterpart funding on engagement of M&E Consultant/Specialist and expertise on emerging need basis. These components will be executed in consultation with PMIU.

GoS will bear the capital, recurring / revenue and other costs of the PMIU. US$10 million (approx. Rs870 million) required to manage and implement the construction work.

Summary and detailed cost estimates of counterpart funding (physical assets and operating costs), consulting services and non-salary capital and operating costs are given in Annex-21 and 22.

1.5 Financial Management Section at PMIU-SBEP

PD will enjoy full powers of Category-I Officer in the PMIU-SBEP. All financial powers as delegated by the Finance Department GoS will be exercised by the PD. Approval and sanction of the competent authority for such financial powers specifically not delegated to the PD shall be obtained invariably.

---

1 Section 6(B), 7 and 13(6) of PC-I on p.7, 19 and 29 respectively
2 Section 10.2.2.1 of APPM
Financial management activities in PMIU-SBEP will be headed by Manager Finance, Accounts and Administration (Manager FAA). He will be working under Program Manager Support Services (PM SS). Manager FAA will be supported in PMIU by Finance and Accounts Officers (FAO) and Accounts Assistants.

Following is the organogram of financial management section:

1.6 Job Description of PM Support Services

Duties and responsibilities of PM SS would be as follows:

- Assist PD/ DPD in implementation of financial policies in accordance with the approved Financial Management Manual
- Facilitate PD / DPD in procurement process
- Implement guidelines/ policies provided in Financial Management approved by the PSC
- Maintain record of financial transactions in accordance with the approved manuals
- Assist PD to make best use of human resource to achieve program objectives
- Prepare record for internal and external audits
- Make efforts for timely procurement of goods and services for program activities
- Close coordination with other sections and Regional Offices of PMIU for implementation of financial and procurement procedures
- Undertake any other assignments delegated by the PD / DPD
1.7 Job Description of Manager FAA

Duties and responsibilities of Manager FAA are as under:

1. Administration of financial management section
2. Preparation of budget
3. Disbursement of salary and non-salary payments
4. Compliance of government rules and regulations in all financial and procurement matters
5. Maintenance of complete and accurate accounting records
6. Preparation of financial reports in time and on prescribed format, presenting true picture of accounts
7. Facilitation in procurement process with respect to its financial aspects
8. Liaise with auditors during internal and external audit
9. Coordination with other sections and Regional Offices of PMIU-SBEP, NBP, SBP, Accountant General Sindh (AG Sindh), District Accounts Offices (DAO), Treasury Officer (TO), Finance Department, representatives of USAID, contractors / suppliers etc. regarding financial and procurement matters.
10. Reconciliation with Banks, AG Sindh, Treasury Officer (TO) and Finance Department GoS
11. Liaise with the representatives of Auditor General of Pakistan during Statutory / External Audit
12. Engage, retain and make best use of human resource to achieve program objectives
13. Assist PM SS in appraising performance of individuals working with PMIU and its regional offices
14. Undertake any other delegated assignment
1.8 Job Description of FAO

Duties and responsibilities of FAO will be as under:

1. Assist Manager FAA in all financial and procurement matters
2. Check vouchers and supporting documents for disbursements
3. Develop and manage payroll for PMIU-SBEP and its Regional Offices
4. Maintain record of financial transactions in accordance with the approved Financial Management Manual
5. Maintain bank record and reconcile receipts and payments on monthly basis
6. Prepare record/ books for internal and external audits
7. Prepare periodic financial statements and reports for stakeholders on the prescribed format
8. Coordinate with other sections and regional offices of PMIU-SBEP, NBP, SBP, AG Sindh, Finance Department GoS, representatives of USAID, contractors / suppliers etc. regarding financial and procurement matters
9. Undertake any other delegated assignment
CHAPTER 2: ACCOUNTING AND RECORD KEEPING AT PMIU-SBEP

2.1 Accounting System
Manager FAA will maintain accounting books and records in accordance with the prevailing policies and procedures of Government of Pakistan and Sindh. He will ensure availability of accounting record for review and audit by USAID or its designees at the end of each fiscal year and at other such times as USAID may request, and up to three years following the last withdrawal made from Accounts.

Manager FAA will maintain a sound financial management system to ensure financial propriety and accurate / timely reporting to the stakeholders. Financial reports generated from the accounting system will be comparable to the physical achievements targeted in SBEP. Manager FAA will ensure maintenance of adequate and accurate record to display sound accounting practices. All the financial transactions will be recorded thereby ensuring that all moneys received and paid are as per rules and regulations governing them. All payments will be charged or classified to relevant heads of account at the time of making payments, except advance payment.

2.2 Connectivity to System-Application-Product (SAP) Software
Controller General of Accounts (CGA) maintains payroll of the government employees all over Pakistan in SAP software. For accounting and reporting purposes, all out efforts will be taken to connect PMIU-SBEP with the CGA’s server. After obtaining connectivity, SBEP’s budget could be uploaded on the system by Manager FAA. Standard Operating Procedure for implementing SAP System in PMIU-SBEP is attached as Annex-28.

---

3 Section 9.01, Article 9.0 of the Activity Agreement
4 Section 13(i)(7.1) of PC-I, p.30
2.3 Chart of Accounts

Manager FAA will adopt Chart of Accounts under New Accounting Model (NAM) of CGA for recording of budget and booking of expenditure under various heads of accounts\(^5\). Chart of Accounts is a listing of subsidiary ledger accounts. It provides a structure for recording and controlling budget and summarizing data under various heads of accounts for monitoring and reporting. Coding for accounts shall ensure proper recognition of revenue, expenditure, assets and liabilities of SBEP. This will comprehensively cover all the account heads that would be required to account for transactions under SBEP. SBEP will also be allotted a four-digit code which will be used for consolidation of accounts by AG Sindh in the overall provincial accounts.

General Ledger System provides four elements i.e. entity, object, fund and function\(^6\). Besides this there is provision for incorporating cost center codes separately. Chart of Accounts for SBEP shall be structured to enable the following characteristics of transactions to be identified and reported:

- Program Number (NAM)
- Object Head - Nature of transaction – Asset, Liability, Revenue or Expense (NAM)
- Source of Funds (NAM)
- Function Head (NAM)
- Program Component and Sub-Component
- Donor Disbursement Category and Sub-Category
- District/Region, if required (NAM)

---

\(^5\) Section 10.2.3.2 and Section 17.2.3.6 of APPM, Annex-B of Budget Call Circular 2013-14 on p.7 and Section 7, Annex-1 of RMF of SBEP

\(^6\) Page 3 of NAM Training Manual Volume-II
2.4 **Basis of Accounting System**

To ensure matching of expenditure against appropriations, Double Entry Book keeping on Modified Cash Basis of Accounting shall be used as prescribed by the CGA. Modified Cash Basis of Accounting helps in controlling not only Cash but also Commitments against budget, allowing the production of Statement of Receipts and Payments, Statement of Assets and Liabilities and a Cash Flow Statement. Commitments and Fixed Assets will be recorded on memorandum basis by using separate registers for that purpose.

2.5 **Fixed Assets (Property, Plant and Equipment)**

Capital expenditure will be recognized in SBEP’s books of accounts in the year in which payment for such items is made and purchases will be charged to the relevant heads at the time of purchase itself. Assets created will be accounted at cost. In government accounts, assets are not being capitalized. Assets are cashed out in the books of accounts as soon as these are purchased. Since assets cannot be capitalized, therefore, there will be no provision for depreciation. However, subsidiary asset record (memorandum account) and Dead Stock Registers would be maintained.

Items of property, plant and equipment should be recognized as assets when it is probable that the:

- future economic benefits associated with the assets will flow to the project, and
- cost of the assets can be measured reliably.

2.6 **Consumable Stores**

Expenditure on consumable stocks will be written off or cashed out in the year the stocks are purchased. However, these will be entered in the Consumable Stock Register and will be issued as per government rules and regulations.

---

7 Section 10.3.2.1 of APPM  
8 Page 2 and 21 of NAM Training Manual Volume-II and Section 4.3.3 of APPM
2.7 Advances

Advance payments to staff, Regional Offices, contractors, suppliers etc. will be adjusted and charged to the relevant head of account only upon submission of supporting documents and vouchers.

2.8 Accounting Records

Standard books of accounts\(^9\) shall be maintained by Manager FAA. He will take steps to ensure that all source documents, books of accounts and permanent accounting records are adequately safeguarded against loss, theft or damage. In case of computerized accounting records, system controls such as regular backups, data archiving and security should be placed to protect the data\(^{10}\).

Following are the books of accounts to be maintained in the Finance Section by FAOs under the supervision of Manager FAA:

- Budget Head Register
- Sub-ledger
- General Ledger
- Appropriation Control Register\(^{11}\)/Monthly Account
- Claim Register
- Pre-audit and Authorization Register
- Cheque Register
- Physical Assets Account / Dead Stock Register
- Consumable Item Register (Others)
- Postage Stamp Register
- Stationery Register
- Computer Stationery Register
- TA Register

\(^9\) Section 4.4.4 & 4.14 of APPM
\(^{10}\) Section 6 of Handbook of Accounting
\(^{11}\) Section 4.4.2 of APPM
• Bank Reconciliation Statements
• Permanent Records (establishment register, payroll register, GP Fund)
• Subsidiary Registers (e.g., contingent payment register, receipt register)
• Supporting vouchers
• Cash Book / Bank Book
• Petty Cash / Imprest Book
• Commitment Register
• Vehicle Log Books
• Vehicle Movement Register

Following is an overview of the primary accounting records used by Finance Section and the relationship between them:

2.8.1 General Ledger

General Ledger is a summarized record of all account balances maintained by the FAO. General Ledger consists of all established account codes available to SBEP, each providing the sum of transactions for each month of the year. Monthly Accounts (expenditure statements) are prepared and submitted to AG Sindh from the General Ledger. Details in a General Ledger must include:

• Date
• Account (as per Chart of Accounts)
• Account description
• Amount in Rupees

---

12 Section 10.4.4.1 of APPM
2.8.2 Journal Entries

General Ledger can only be updated by journal entry vouchers, representing a particular group of subsidiary ledger transactions, in double entry format. Each journal entry contains a unique journal identifier, to enable the transactions included in it to be traced from the General Ledger back to the subsidiary ledger. Furthermore the sum of all debits and credits in the journal must be in balance. Journal entries are also used at period-end to make adjustments to the accounts, including those required under the modified cash model. These journals need not be sourced from a subsidiary ledger, but still require a source document of some description, such as an approved journal voucher form and supporting schedule.

2.8.3 Subsidiary Ledgers and Registers

A subsidiary ledger (or a sub-ledger) is a detailed record of individual accounting transactions that are subsequently summarized into a journal entry. For example the receipts and payments record each day by FAO shall be entered initially into the subsidiary ledger. There is no requirement to enter the opposing debits and credits in this case, as this is determined when the journal entry for the General Ledger is compiled. FAO must enter the following details in sub-ledgers:

- Date
- Payment reference (e.g. cheque number)
- Payment description
- Account (as per Chart of Accounts)
- DDO reference
- Amount in Rupees

FAO must total sub-ledgers at the end of each day and post the daily totals, by account to the General Ledger.
2.8.4 Permanent Accounting Records

These are records that are required to periodically generate accounting transactions. Such records are also referred to as ‘static data’ because they are established once, and then updated only as required. They are also very useful for expenditure analysis and reporting, when combined with financial data. Main type of permanent accounting records relate to employee related expenses. These records consist of:

- *establishment registers* – records of established posts, positions and current strength
- *payroll registers* – records of employees payroll details, used to generate pay bills

2.8.5 Cash / BankBook

Cash and Bank Book is a type of General Ledger. FAO will maintain a Cash Book with Cash and Bank columns\(^{13}\). Transactions of cash and bank will be recorded in the Cash Book along with classification as and when transactions take place. Cash Book will be closed monthly and attested by Manager FAA. There will be a surprise verification of Cash at least once in a month by a person designated by the PD. Results of such verification will be recorded in the Cash Book under his / her date and signature.

2.9 Policies for Maintenance of Accounting Records

Following policies shall be applicable to all accounting records at PMIU-SBEP\(^{14}\):

- Accounting records are not to be maintained in loose-lead form.
- Pencil, erasure and correction fluid are not to be used in any accounts related entries.
- Where corrections are necessary the word or figure to be removed shall be ruled through and the correction initialed by the officer making it. Correct entry will then be inserted above the correction.

\(^{13}\) Rule 77 of Treasury Rules Volume-I

\(^{14}\) Section 16.3 of APPM
• Corrections and amendments to be made in sub-ledgers or general ledger effecting the double entry transactions shall be carried out through a journal entry.

• Pages are not to be removed from an accounting record under any circumstances.

• All accounting records will be retained either in their original form or suitable substitute for a period of ten years from the date of certification of financial statements to which the record relates or review by the Public Accounts Committee (whichever is latest)\textsuperscript{15}.

\textsuperscript{15} Section 16.2.3 of APPM
CHAPTER 3: ASSIGNMENT ACCOUNTS

Two Assignment Accounts, one for GoS funding and other for USAID grant assistance will be opened at the designated branch of NBP to facilitate disbursements. These Assignment Accounts together will be part of Provincial Consolidated Fund Account No.1 (Non-Food) to prevent accumulation of unspent balances outside Consolidated Fund. These Accounts could neither be intermingled nor interest bearing\textsuperscript{16}. All eligible SBEP expenses would be financed through these accounts.

Manager FAA shall strictly monitor the use of funds from these Assignment Accounts as per government rules & regulations and set procedures. All receipts and payments from the Assignment Accounts shall be recorded and reconciled in such a manner that it will be possible to ascertain balance in the Accounts at any time. Separate accounting ledgers and files for supporting original vouchers shall be maintained for financial reviews and audit\textsuperscript{17}.

3.1 Assignment Account for GoS Counterpart Funding

Assignment Account for GoS counterpart funds will be opened at the designated branch of NBP through SBP by the Finance Department in consultation with AG Sindh. NBP will issue a cheque book for drawing money from the Assignment Account through Treasury.

All payments made through cheques will require two authorized signatories. PD will be the signatory and co-signatory would be nominated by the Secretary Education & Literacy Department in consultation with PD\textsuperscript{18}. Specimen signatures of signatory and co-signatory will be circulated to all the stakeholders like PSC, AG Sindh, NBP, SBP and Finance Department GoS\textsuperscript{19}. Copies will be kept for record. Any changes in the panel of

\textsuperscript{16} Article 8, Section 8.02(a) of Activity Agreement
\textsuperscript{17} Article 8, Section 8.02(b) of Activity Agreement
\textsuperscript{18} Section 17.3.1.2 of APPM
\textsuperscript{19} Rule 141-2 and 172 of Treasury Rules Volume-I
signatories is approved by Secretary Education and Literacy Department and circulated accordingly by Manager FAA.

Balance remaining in the Assignment Account at the end of each financial year must lapse i.e., not carried forward to the next year. However, the funds can be reallocated in the next year’s allocations. Assignment Account will be included in the overall cash balances of the government for the purpose of financial reporting (Civil Account) and bank reconciliation. All expenditure out of Assignment Account must be classified according to the Chart of Accounts i.e., to the relevant object, function, fund entity to which the transaction relates.

Expenditure in relation to Assignment Account will be recognized in the accounts when cheques have been drawn by the cheque signatory and co-signatory i.e., upon the issue of payment. Regional Offices shall also send their claims for payment to the PMIU for processing, preparation of cheques, countersigning by panel of signatories and endorsing by Treasury Office thereof. Concerned Treasury Offices shall maintain a general ledger and an Appropriation Register wherein expenditure will be recorded as and when cheques are drawn from the Assignment Account. A separate cheque clearing general ledger account shall be maintained by Manager FAA as a means of matching recorded expenditure with the bank scroll of cheques actually realized.

Manager FAA will reconcile Monthly Statement of Expenditure (SoE) (Annex-1A) with AG Sindh after reconciling bank statement with the NBP. NBP shall send a monthly bank scroll to AG Sindh for reconciliation.

All payments, except for an authorized petty-cash to be notified in writing by PD to relevant NBP branch, shall be made directly to the recipients through ‘payees account only’ cheques after making due deductions\textsuperscript{20}.

\textsuperscript{20} Section 4.3.1.1 of APPM
Except budgetary transfers, no deposits will be made in the Assignment Account. Cash payments or fund transfers from Assignment Accounts to any other account for the sake of onward disbursement shall be strictly prohibited.

On the completion of Program, PD will request the Finance Department to get the Assignment Account closed by the SBP. The Finance Department will write to the SBP to close the Assignment and transfer balances, if any, to a particular head of account under GoS Consolidated Fund Account No.1.

3.2 Assignment Account for USAID Grant Funds
Government of Pakistan will establish a Separate US Dollar Account in the Federal Reserve Bank of New York (FRBNY) for the purpose of receiving and accounting of award for SBEP. EAD will request USAID to make all disbursements of US dollars for the Program into the above mentioned Separate Dollar Account. Funds in the Separate Dollar Account will not commingle with funds with any other donor. EAD will use funds disbursed into the Separate Dollar Account exclusively for the Program and in accordance with the terms and conditions of the agreed Activity Agreement and subsequent PILs.

GoS will establish an Assignment Account for USAID Grant Funding especially for the SBEP at a designated branch of NBP through SBP. However, funds in the Assignment Account with NBP will be diverted into Pak Rupees against foreign currency received in the Separate Dollar Account. EAD will deposit an amount of Pak Rupees from Government of Pakistan reserves with the SBP equivalent to each disbursement of US dollars made by USAID into the Separate Dollar Account within one day of the receipt of the dollars in the Separate Dollar Account. SBP will use the highest rate of exchange that is not unlawful in Pakistan on the day on which the specified US dollar disbursement is made when determining the amount of local currency deposit.
NBP will issue cheque book for the Assignment Account for USAID Grant Funding, which will be operated and maintained by PD along with a joint signatory to be designated by the PSC.

When contractors will submit their interim payment / payment certificates, PM Construction Management will examine them and compare the details in the approved PC-I, Activity Agreement and PILs. PD will request USAID for transfer of funds in Assignment Account for USAID Grant Funding through a request on Standard Form-1034 (Annex-19) along with all supporting documents as required in the Form. Manager FAA will send copies of documents to EAD. Assigned identification number of Assignment Account will be indicated on SF-1034. USAID will forward interim payment / payment certificate to designated third party monitor for physical verification of work done at site as per established standards. The monitor will send interim payment / payment certificate back to USAID after physical verification with a copy to PD. USAID will approve SF-1034 as per the monitor’s verification and request the United States Treasury for release of funds into the SBP account with Federal Reserve Bank of New York. Upon receipt of funds, USAID will intimate this to the PD.

SBP will ensure reimbursement to NBP within two working days and will immediately report the receipt in Pak Rupees and the equivalent foreign currency to NBP HQ with a copy to respective NBP branch, PD PMIU-SBEP, P&DD, Finance Department, EAD and AG Sindh.

After receiving intimation from USAID, Manager FAA will examine and verify interim payment / payment certificate. Upon receipt of verification from Manager FAA, the FAO will prepare a cheque for the contractor and have it signed by the two designated signatories. Signed cheque will be delivered to the contractor and acknowledgement receipt will be obtained by the FAO. After issuing the cheque, FAO will make accounting

---

21 For contact information, refer to Activity Agreement or respective PILs
22 MoF, Budget Wing OM No. F.2(1)BR-II/2007-88 dated January 17, 2012
entries then enter the payment into Cash Book against relevant head of account. Payment will also be entered in General Ledger. In order to record expenditure upon issue of cheques, Manager FAA shall ensure that the copy of the Schedule of Assignment Account Cheques\textsuperscript{23}(Annex-24) is sent to Treasury Office as the cheques are drawn. Copy of schedule will also be sent to NBP.

For the utilization / expenditure, the funds available to the PMIU-SBEP would be Pak Rupees while the equivalent US Dollar debit / credit and balance amounts shall be used by the PMIU for reporting to, reimbursement / disbursement from and reconciliation with the USAID\textsuperscript{24}.

USAID may withhold disbursements if PMIU-SBEP fails to comply with the terms and conditions of Activity Agreement, subsequent PILs or agreed reporting requirements\textsuperscript{25}.

Assignment Account for USAID Grant Funding must be promptly closed when the relevant activity for which it was established has completed or has been otherwise wound up. EAD, on the request of USAID, will direct the Finance Department, P&DD and PMIU-SBEP to take measures for closing of Assignment Account. Manager FAA will close the books of accounts ninety days prior to the closing of Assignment Account. Accounting adjustments will be carried out in these ninety days and no new transaction will be made. Manager FAA will obtain final bank statement. Exact amount of unspent balance will be worked out within two weeks of the close of the Program. In case there is balance available, it will be refunded to USAID by the Finance Department GoS through SBP. Finance Department will arrange for budget provision and intimate the Head of Account and Demand number to the SBP and EAD for accounting and booking of refund. SBP will close the Assignment Account and shall intimate to GoS, NBP and EAD within two weeks. EAD will reconcile with USAID within one week’s time.

\textsuperscript{23}Page 8 of MoF Budget Wing, Islamabad OM No.F.2(1)BR-II/2007-1618 dated July 27, 2011
\textsuperscript{24}MoF, Budget Wing OM No. F.2(1)BR-II/2007-88 dated January 17, 2012
\textsuperscript{25}Section 8.02(c), Article 8 of Activity Agreement
3.3 Handling of Cheque Books

Following are the steps involved in handling of cheque books:

1. **Cheque book in-use:** FAO will ensure that only one cheque book will be used at one time for each bank account. Cheques of Assignment Accounts shall contain cost center or Program code, which will be recorded by the FAO on all cheques. This code will be used for entry of paid cheques by the AG Sindh on receipt of paid cheques from the NBP.

2. **Cheque Book Register:** Manager FAA will control receipt and issuance of cheque books to the authorized personnel through Cheque Book Register (Form 4J).

3. **Custody of Cheque Book:** FAO will retain all used and unused cheque books under lock and key.

4. **Cheque Dispatch Register:** FAO will record particulars of dispatched cheques in Cheque Dispatch Register (Annex-5).

5. **Undelivered Cheques:** FAO will retain undelivered cheques for a period of thirty days. Afterwards, these will be cancelled and retained in the cheque book.

6. **Lost Cheque:** Manager FAA will intimate the Bank vide a letter containing particulars of lost cheque to stop payment. A reference is made under the Bank Reconciliation Form for PD to know.

3.4 Reporting and Bank Reconciliation

Manager FAA will reconcile monthly returns with the disbursed amounts from Assignment Accounts and produce a function-cum-object-wise Monthly Account / SoE. Manager FAA will reconcile this Account with AG Sindh on monthly basis. In case of non-reconciliation by 21st of the following month, AG Sindh shall advise USAID through EAD to take appropriate action as per USAID financial management guidelines. Detailed procedure for reconciliation is given in Section 4.5.18 of APPM.
Following is the procedure for bank reconciliation:

1. **Obtaining Bank Statements**: FAO will obtain Bank statements of Assignment Accounts within one week from the end of month.

2. **Bank Reconciliation Statement**: Bank Reconciliation Statement (Annex-6) will be prepared by FAO for each bank account on monthly basis within five days from the month end. Items revealed through preparation of bank reconciliation are dealt with as follows:
   a. Discrepancies are pursued with the bank for resolution.
   b. Un-reconciled credits are reconciled and adjustment is made in the books of accounts accordingly.
   c. Un-presented cheques for more than six months are cancelled and reversal is recorded in the general ledger after taking approval from PD. New cheque is prepared instead of revalidating the old one. Concerned vendor and relevant department are informed.
   d. Lost checks are identified and noted as a footnote.

3. **Checking of Bank Reconciliation**: FAO will check Bank Reconciliation Statement and forward it to Manager FAA for approval.

4. **Approval of Bank Reconciliation**: Manager FAA will approve the Bank Reconciliation Statement in consultation with the PM SS.

### 3.5 Documentation Related to Banks

Following are the list of documents related to banking activities:

1. **Bank File**: FAO will maintain a separate bank file for each bank account. This file contains following documents:
   a. Account opening form
   b. List of signatories and changes thereof
   c. Monthly Bank Reconciliation Statements along with copies of monthly bank statement
d. Details of correspondence with banks

e. Account closure certificate and final bank statement

2. **Retention of Record**: Manager FAA will be responsible for retaining all record relating to banks at least for a period that will provide coverage of three years after the close of Grant.\(^2^6\)

\(^{26}\) Section 9.01, Article 9 of Activity Agreement
CHAPTER 4: BUDGET PREPARATION AND APPROVAL

4.1 Budget Preparation and Approval Process

Budget activities relating to preparation, compilation, approval and subsequent budgetary controls for GoS counterpart funding and Foreign Project Assistance (FPA) for USAID funding will be carried out by the Finance Section of PMIU-SBEP headed by Manager FAA. He will guide in preparation of estimates and will act as a coordinator amongst all the Sections and Regional Offices.\(^{27}\)

4.2 Estimates for GoS Counterpart Funding

For preparation of estimates for GoS counterpart funding (Revenue Budget Estimates), Form provided in Co-ordination Section, P&DD’s letter No. ADP (2013-14)/P&D/2013 dated 15\(^{th}\) April, 2013 (Annex-20) and Chart of Accounts under NAM will be used.

In order to ensure timely completion of budget process in a systemized manner, Manager FAA shall develop a schedule to organize budget preparation activities in accordance with the time schedule for ADP issued by the P&DD GoS. The schedule may be as under:

<table>
<thead>
<tr>
<th>Dates</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>13(^{th}) November</td>
<td>Communication of letter/form by P&amp;DD to Education &amp; Literacy Department</td>
</tr>
<tr>
<td>20(^{th}) November</td>
<td>Communication of letter/form to PMIU-SBEP by Education &amp; Literacy Department</td>
</tr>
<tr>
<td>22(^{nd}) November</td>
<td>Distribution of letter/form to PM Construction Management by Manager FAA</td>
</tr>
<tr>
<td>10(^{th}) December</td>
<td>Submission of first draft of Budget to PD/DPD</td>
</tr>
<tr>
<td>15(^{th}) December</td>
<td>Submission of final draft of Budget to PSC for approval</td>
</tr>
<tr>
<td>25(^{th}) December</td>
<td>Submission of Budget to Education &amp; Literacy Department for onward transmission to the P&amp;DD</td>
</tr>
</tbody>
</table>

\(^{27}\) Section 3.2.1.1 of APPM
Copies of SAE will be distributed to PSC, Sectional Heads, Internal Auditors and office file. A copy of authorized budget must be communicated to AG Sindh so that a complete record is maintained for verification\textsuperscript{28}.

Financial data shall be related to the performance data and unit cost information shall be developed wherever practical\textsuperscript{29}. PD is required to report deviations from budget and Program plans, and request prior approval for budget and program plan revisions\textsuperscript{30}.

### 4.3 Mechanism for Release and Deposit of GoS Counterpart Funding

After the approval of budget by the Provincial Assembly, allocated funds in Volume-V of the Budget (Public Sector Development Program) are to be got released from the Finance Department. Following steps are involved:

- Preparation of Budget Sanction Letter by the Manager FAA to be sent to Finance Department through Education & Literacy Department
- Authentication of Budget Allocation by the Finance Department
- Draft Release Order (DRO) for deposit of funds into Assignment Account for GoS counterpart funding for SBEP in NBP through Treasury Office

### 4.4 Estimates for Foreign Project Assistance (FPA)

Preparation of estimates for FPA budget is being done by the Foreign Aid Section of P\&DD, which asks the Administrative Departments for preparation of such estimates on prescribed EAD’s format through letter 691)EAD/R&S/AC-B/12 dated 7\textsuperscript{th} November, 2012 (Annex-20).

\textsuperscript{28} Section 3.3.1.4 and 3.3.11.1 of APPM
\textsuperscript{29} Section 226.21(a) and 226.21(b)(4) of US Code of Federal Regulations 22CFR226
\textsuperscript{30} Section 226.25(b) of US Code of Federal Regulations 22CFR226
The time frame for the preparation of FPA budget is given under:

<table>
<thead>
<tr>
<th>Dates</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>November</td>
<td>Communication of letter/form by EAD to P&amp;DD. Usually, EAD issues letter for FPA budget during the month of October, however this year letter has been issued on 7th November</td>
</tr>
<tr>
<td>November</td>
<td>Circulation of letter/form to Education &amp; Literacy Department by P&amp;DD</td>
</tr>
<tr>
<td>November</td>
<td>Communication of letter/form to PD PMIU-SBEP by Education &amp; Literacy Department</td>
</tr>
<tr>
<td>November</td>
<td>Communication of letter/form to PM Construction Management by Manager FAA</td>
</tr>
<tr>
<td>December</td>
<td>Submission of first draft of FPA Budget to PD/DPD</td>
</tr>
<tr>
<td>December</td>
<td>Submission of final draft of FPA Budget to PSC for approval</td>
</tr>
<tr>
<td>January</td>
<td>Submission of FPA Budget to Education &amp; Literacy Department for onward transmission to the P&amp;DD</td>
</tr>
<tr>
<td>February</td>
<td>Subsequent meetings with the PD for finalization of FPA Budget</td>
</tr>
<tr>
<td>March</td>
<td>Communication of FPA budget to EAD</td>
</tr>
</tbody>
</table>

For the preparation of realistic FPA estimates, PM Construction Management will break down the budget preparation exercise into identifiable tasks / physical targets so that the physical progress could be matched with the financial outflows. Estimates should be furnished both in US$ and Pak Rs with a foot note indicating the conversion rate.

4.5 Budget Monitoring

FAOs will record financial transactions in respective heads of accounts in General Ledgers for monitoring purposes. General Ledger data will be compiled on periodical basis for preparation of accounting records and generation of various management reports related to budget utilization, variances and balances left for the remaining period.

Respective PMs will be responsible to achieve the specified goals for which appropriations have been made. Budget would be reviewed and evaluated on monthly basis by PD/DPD assisted by Manager FAA to ascertain progress made towards achieving the desired targets as well as to keep the Activity Plan up-to-date.
Manager FAA will be responsible for keeping record of budget utilization and physical progress of activities planned. He will prepare and submit quarterly Activity Status Report and Financial Report to PD/DPD for review and then to PSC for approval. Through Activity Status Report, progress towards pre-set goals will be analyzed and responses to Programs will be ascertained. Through Financial Report, significant variations and Program balances will be analyzed.

At the end of fiscal year, any balances remaining in the USAID Assignment Account shall be carried over to the next year. PD will report non-utilized balances in the GoS Assignment Account to the Finance Department GoS by 30th of April (if supplementary grant is not involved) and 14th of June (if supplementary grant is not involved) of the corresponding year. These funds shall be reallocated in the next financial year. However, no savings should be held in reserve for possible future excesses and expenditure postponed must not be reallocated to meet new items of expenditure.

4.6 Budget Revisions / Re-appropriations / Reallocation

Activity Plan and Budget may be revised during the financial year in order to adjust projections to meet changing conditions. Changes in the budget are restricted to Programmatic changes due to addition / deletion of geographic areas or in case a specific part / aspect of the SBEP implementation is no more feasible or productive and underestimation. No budget lines can be added or deleted especially under the administrative cost without prior approval of USAID. Potential budget revisions are:

1. **Budget Contractions**: Represent deletion of budget line or decrease in already apportioned amount.

2. **Budget Transfers / Re-appropriation / Reallocation**: Represent transfer / re-appropriation / reallocation of funds from one budget line i.e., detailed object

---

31 Section 3.3.12.1 of APPM
32 Annex-C (16) of Budget Call Circular 2013-14
33 Section 3.3.12.6 of APPM
34 Section 3.3.12.7 of APPM
head to another provided that funds are available from savings arising in the same grant. Such transfer requests shall be put up to the PSC, since it has Members from the P & D and Finance Departments, GoS. An approval from the PSC will be sufficient for such transfers. It is pertinent to mention here that re-allocation cannot be made to and from the establishment budget\(^{35}\).

Budget revision is requested on Budget Revision Request Form (Annex-2) duly prepared and forwarded to Sectional Heads / Program Managers for authorization. Authorized Budget Revision Request Form is then submitted to PD for review and onward transmission to PSC for approval.

\(^{35}\) Section 3.3.12.7 and 3.3.12.8 of APPM
CHAPTER 5: SUB-PROJECT PC-I

For the preparation of sub-project PC-1, each task will be broken down into activities necessary to finish the process and achieve the functions assigned to it. A calendar of such activities i.e., Activity / Work Plan along with Cash Plan will be prepared clearly mentioning the scheduled dates for start and completion of each step and cash flows requirements thereof. Preliminary estimates will be developed, evaluating the reasonableness of estimates. The estimates will be based on the cost estimates and detailed engineering drawings of selected schools at market rates prepared by the Consultants to be engaged for preparation of sub-project PC-Is. Estimates for civil work would be obtained from renowned contractors. Estimates of acquiring office equipment, furniture and fixtures, machinery and equipment, motor vehicles would be obtained from reputed suppliers. Year-wise capital expenditure in the shape of Cash Plan will be computed for ensuring timely availability of funds.

PC-I for sub-projects will be prepared as follows:

- Damaged schools for reconstruction and up-gradation will be identified through the selection guidelines agreed with USAID. Education and Literacy Department staff at district level will be engaged to prepare and short-list the schools. PD will share such list with USAID for approval. Approved list will be basis for preparation of detailed sub-project PC-Is. Construction works in districts will be divided into 2-3 phases. Sub-project PC-Is will be prepared separately for each district as per approved phasing. Sub-Project PC-Is have to be based on detailed projections of estimated student population for the next twenty years and detailed architectural design. Detailed cost estimates need to be provided. PD will be responsible for preparing and appraising the Sub-Project PC-Is with technical assistance from design and supervision consultants. Planning,

---

36 Section 7(ii) of PC-I, p.20
37 Section 13(5) of PC-I, p.28
development and finance sections of Education and Literacy Department should be given due role in the Sub-Project PC-Is preparation process. Active support and clearance should be sought from respective District Administration. Sub-Project PC-Is would be cleared by PSC and approved by PDWP.

- While preparing Sub-Project PC-Is, requirements under ‘Revenue Head’ i.e., furniture, fixtures, equipment, books etc. will also be incorporated in the cost of schools. This expenditure will be part of USAID grant funding for the physical works viz. construction / reconstruction / consolidation of schools. However, following needs to be taken into account while preparing estimates for ‘Revenue Head’ requirements:
  1. Furniture, fixtures and equipment should not exceed 15% of the capital cost of school
  2. Cost of land where required should not be more than 10% of capital cost
  3. Word 'Approx.' to be used for the purpose of flexibility
  4. Furniture, fixtures and equipment cost will be incurred after the completion of capital / civil works, hence, should be booked in the following year

Manager FAA shall provide following information for each Sub-Project:

1. Name of sub-program
2. Relevant PC-I and PC-II (project definition and feasibility) forms for Budget Estimates submitted for the first time specifying year-wise costs to be incurred during the program tenure
3. Physical targets to be achieved
4. Expected date of completion
5. Accumulated expenditure and percentage of completion up to the end of previous year
6. Comparison of planned activities and budgets of the current year with actual achievements and revised budget

---

38 Section 3.3.5.6 and 3.3.7.3 of APPM
39 Section 3.3.7.6 of APPM
7. Review of budget increases, if any, caused by changes.
8. Outline of problem areas which have not been reconciled / addressed within the current budget
9. Comparative trends showing historical trends
10. Budget estimate for next financial year
11. Targets proposed for next year and basis for determining targets

PD and DPD assisted by Manager FAA will review the Budget Estimates, Activity / WorkPlan and Cash Plan with respect to accuracy, reasonableness, possible problems in implementation and reasons for substantial variations between projections and cost incurred during previous years. Budget document will be submitted to PSC for consideration and approval.

PSC will review PC-Is for the proposed sub-projects. It will hold discussions for resolving issues related to costs, duration etc., if any, before placing in PDWP for formal approval. Approved budget will be referred to as the Schedule of Authorized Expenditure (SAE).

---

40 Section 3.3.5.3 of APPM
41 Page 26 of PC-I
42 Section 3.1.1.4 and 3.3.11.1 of APPM
CHAPTER 6: FIXED ASSETS

Control of fixed assets is an important feature of financial management. It involves accurate reporting of asset purchases, disposal, transfer and avoiding losses through theft and misuse of those assets under an entity’s control. In Modified Cash Basis of Accounting, a memorandum account of fixed assets shall be kept at PMIU-SBEP by Manager FAA to record transactions relating to fixed assets. Fixed assets are not capitalized in government accounts since these are immediately cashed out at the time of purchase.

6.1 Fixed Assets Register

Fixed Asset Register on Form 13A will be maintained by FAO for various categories of assets which will include land, building, civil works, plant and machinery, vehicles, furniture/fixtures, office and computer equipment.

Items with unit cost over Rs 25,000 and useful life of more than one year and/or items of sensitive nature will be entered into Fixed Assets Register. PD should subsequently adjust this threshold in the light of experience and better defined management information requirements. Items less than the threshold should be entered in the Store Register (Annex-26). FAO shall keep the following information in the Fixed Asset Register for each asset:

1. Asset identification number
2. Classification of asset
3. Date of purchase or completion
4. Original purchase cost
5. Current location

---

43 Section 13.4.4 of APPM
44 Section-III of Chapter 8 of General Financial Rules Volume-I
45 Section 13.4 of APPM
6. Ownership / responsibility of asset

7. Reference to relevant files, plans and deeds, source of acquisition and any other detail such as rent payable or receivable and restrictive covenants\(^{46}\)

6.2 Fixed Assets Recognition

6.2.1 Purchased Assets

Tangible fixed assets acquired shall initially be measured at their cost of acquisition (historical cost) including applicable ancillary costs. Ancillary costs may include:

- Initial delivery and handling cost
- Installation cost
- Professional fee such as for architects and engineers
- Costs of interest on loans to finance acquisition of an asset where the asset is bought outright or through hire purchase or finance leasing
- Import duties and non-refundable purchase taxes

6.2.2 Acquisition of two or more Assets

When two or more assets are obtained at one time and their individual costs are not readily known (e.g. land and building purchased as one), the individual costs are allocated to assets based on their relative fair market values at the time of acquisition. These costs are simply a ratio of the initial acquisition cost versus their fair market values.

6.2.3 Self-constructed Assets

Assets that are constructed will be priced at the total cost incurred to build the asset. This includes both direct and indirect costs.

\(^{46}\) Section 13.4.1.5 of APPM
6.2.4  Donated Assets
Where functional fixed assets have been received by way of gift or donation or as part of non-monetary grant, their cost will be determined on the basis of information provided by the donor. If information from donor is not available, fair market value will be considered for cost determination. In order to keep the Fixed Asset Register/Inventory Sheet coherent with the financial records, difference between the cost paid and cost constructed shall be defined in the “Remarks Column”47.

6.2.5  Cash Discounts
Assets will be recorded net of any quantity or trade discounts received. Asset is recorded at a cost equal to the actual amount of cash paid, not the gross amount of invoice.

6.2.6  Improvements, Repairs and Replacements
Expenditure that increases future benefits from an existing fixed asset beyond its previously assessed standard of performance should be included in the cost of an asset. Increased future benefits typically include:

- Extension in estimated useful life of asset
- Increase in the capacity or efficiency of asset
- Substantial improvement in the quality of output or a reduction in previously assessed operating costs

6.2.7  Razing a Constructed Asset
When a building is razed in order to clear the area for construction of another building, cost of razing the original building will be recorded as land improvement. Costs related to razing of old buildings and reshaping of the land will, therefore, be considered costs of land since these are necessary to get the land in condition for its intended purpose.

47  Section 13.4.3 of APPM
6.3 Receipt and Issuance of Asset

Steps involved in receipt and issuance of assets are explained as follows:

1. **Requisitioning Asset:** Requesting staff will fill Asset Requisition Form (Annex-7). Sectional Head will forward it to the Finance Section for approval of PM SS.

2. **Availability Check:** On receipt of Asset Requisition Form, Manager FAA will check availability in stores or through transfers. In case the requested item is not available, it is intimated to the concerned staff member who asks for procurement of the same by giving a written request to PM SS.

3. **Goods Received Note:** On receipt of Goods Inspection and Return Report, Procurement Officer / Inspection Team will fill appropriate section of Goods Received Note (Annex-8) giving all the related details of acquisition along with the description of equipment.

4. **Asset Identification Number:** Asset is assigned a unique identification number (fixed asset code). FAO will affix Asset Identification Number on front or other accessible area of the asset. The number will comprise of following components: AA [Asset type 2 characters] 000001 [Sequential number 6 digits] YYYY [Acquisition year 4 digits].

5. **Certification of Goods Received Note:** Within seven days of receipt of asset, duly filled-in Goods Received Note is sent to Manager FAA for certification.

6. **Distribution of Certified Goods Received Note:** After receiving back certified Goods Received Note, FAO will send original copy to the Senior Procurement Specialist (SPS). Duplicate is retained for records.

7. **Asset (Inward & Outward) Register:** Based on the copy of Goods Received Note, FAO will record related details of acquisitions into Asset (Inward & Outward) Register (Annex-9).

8. **Issuance of Asset:** Authorized Asset Requisition Form is filed for departmental record and FAO will issue equipment through Asset Issuance Form (Annex-10). Where issuance involves transfers, procedures relating to Transfer of Equipment are followed.
9. **Relocating/Transferring Asset**: Based on the authorization granted, FAO will complete the Asset Transfer Form (Annex-11) and forward it to concerned Sectional Head for endorsement.

10. **Updating Records**: After successful completion of inter-departmental or inter-location transfers, Manager FAA will update the relevant records\(^\text{48}\).

### 6.4 Requesting Repair

Repair of assets will be sanctioned by PD or DPD as per powers delegated by the Finance Department GoS. Concerned Sectional Head will complete the Equipment Repair Request Form (Annex-12) and forward it to PM SS for verification and approval.

Equipment Repair Request Form is filled for official record and arrangements for repair and maintenance are made in accordance with the procedures laid down for procurement of services.

### 6.5 Physical Count

In order to exercise effective control over equipment and to ensure objective reporting of fixed assets, a physical count is conducted once in a financial year. Physical Count Team will be formed by the approval of PD. Prior to the scheduled date, Physical Count Sheet (Annex-13) will be prepared by the Team and a written intimation of date and time of physical count is sent to each Sectional Head\(^\text{49}\).

Based on Physical Count Sheet, the Team carries out physical count to ascertain condition of each item counted and to confirm its location and existence. Each asset appearing in the Physical Count Sheet is verified for its existence by putting “\(\checkmark\)" (item located) or “\(\times\)" (item could not be found) in front of its asset code. Any incorrect or missing information will be circled and correct information will be written. Report on physical count should include:

\(^{48}\) Section 13.4.1.6 of APPM  
\(^{49}\) Rule 159 of General Financial Rules Volume-I
• Findings (summarized)
• Criteria (what should be)
• Effect of findings (substantiated, if possible)
• Cause of findings (why occurred) and
• Recommendations on findings so highlighted

First copy of Physical Count Report together with Physical Count Sheet is retained by the Physical Count Team for record. Second copy is retained by Manager FAA. Third copy is sent to the concerned location. Fourth copy is provided to the DPD.

Physical count results are entered into Fixed Asset Card and Fixed Assets Register. Differences between actual status of fixed assets (determined by the count) and pre-existing data on the system are reconciled. Updated fixed assets record are reviewed and verified by PM SS assisted by Manager FAA.

6.6 Reporting Losses and Deficiencies
If it is determined that property assigned to a custodian has been stolen, the suspected theft is immediately notified to the Sectional Head and PD through Missing or Stolen Asset Report. The record will show, where appropriate: gross value of the loss, cause of each loss, action taken, amount recovered, amount waived or written off and its date and authority for adjustment.

When during a financial year, amount of losses is known and recoveries are certain, the amount recovered shall be credited to the original expenditure head. In case where the circumstances and ultimate amount of a loss is uncertain and the account for the financial year is still open, the amount shall be transferred to a suspense account pending investigation. Any sums recovered while the account for the financial year remains open shall be credited to that suspense loss account. Any balances of a loss remaining in the suspense loss account when the account for the financial year is closed
shall be regarded as the final amount of the loss and charged to the unrecovered losses head and noted accordingly. When any recoveries are made after the account for the financial year is closed, they shall be treated as other revenue in the financial year in which recovery amount is received\textsuperscript{50}.

6.7 Disposal / Write-off of Assets

Based on the findings of Physical Count Team, Manager FAA submits a memo to PD recommending disposals and / or write-offs. Memo spells out details related to cost, funding source, book value and condition of the assets being requested for disposal. PSC solicits consent of the proposed disposals and / or write-offs and presents the documentation to USAID for final approval. Surplus or unserviceable stores shall be sold in the open market by means of public auction or tender. The store to be sold shall be valued by the officers from the Procurement Section. FAO will update the record after the asset has been sold or disposed of\textsuperscript{51}.

Receipts from the sale of fixed assets shall be credited to the appropriate account head in the relevant Provincial Consolidated Fund. Following will be the double entry:

\begin{align*}
\text{Dr} & \quad \text{Bank Account} \\
\text{Cr} & \quad \text{Revenue head account [to record proceeds from disposal of asset]} \\
\text{Cr} & \quad \text{Fixed assets account [memorandum account]}
\end{align*}

\textsuperscript{50} Section 8.2.2 of APPM
\textsuperscript{51} Section 13.5 of APPM
CHAPTER 7: PROGRAM EXPENDITURE

As discussed in Chapter 1, following will be the two streams of funding for SBEP from where expenditure would be incurred:

1. GoS executed component i.e., Government to Government (G2G) or Counterpart Funding for construction activities, purchase of store and cost incurred on PMIU.
2. USAID executed component wherein expenditure will be incurred on reading literacy, community mobilization, technical assistance to Department of Education, M&E and OIE.

In the ensuing paragraphs, expenditure incurred under each component will be discussed in detail.

7.1 GoS Component
Expenditure incurred out of G2G / counterpart component is stated as below:

7.1.1 Salaries
Following is the procedure for preparation of payroll:\textsuperscript{52}:

1. Employee Attendance Record: Employee attendance card is the prime document in payroll preparation. All leaves up to 20\textsuperscript{th} of each month will be considered in the payroll preparation.

2. Adding / Deleting an Employee: When an employee is added into or deleted from the payroll, FAO shall allocate his pay on the basis of working days in the month. This allocation will be processed through separate journal entry\textsuperscript{53}. Pay Slips shall be issued to all new entrants. Manager FAA will ensure that there are no outstanding dues against the relieving personnel. In case of addition or

\textsuperscript{52} Section 4.6 of APPM
\textsuperscript{53} Section 4.6.6.2 of APPM
deletion in payroll, FAO shall update the Establishment Register and subsidiary record.\(^{54}\)

3. **Submission of Attendance Record**: All attendance record is forwarded by the Sectional and Regional Heads to Manager FAA up to 22\(^{nd}\) of each month. Any changes in relation to employee’s salary or allowances after 22\(^{nd}\) of a month shall be adjusted in next month’s payroll.

4. **Preparation of Employee Attendance Summary**: Finance Section will prepare section and location-wise Employee Attendance Summary from the attendance record received. The same would be approved by PM SS.

5. **Preparation of Payroll Sheet**: FAOs shall prepare Payroll Sheets along with journal voucher from the approved Employee Attendance Summary. First copy of Payroll Sheet along with vouchers will be kept for payment. Second copy will be retained in the Finance Section. Third copy will be kept in the Payroll Register for record.

6. **Deductions**: FAOs shall ensure necessary deductions from the salary. These include income tax, loan against salary, other mandatory contributions etc.\(^{55}\)

7. **Checking**: Manager FAA will check the journal vouchers and Payroll Sheets.

8. **Approval**: PD / DPD will approve the journal vouchers and payroll sheets.

9. **Posting**: FAOs shall post journal voucher in books of accounts.

Following is the procedure for disbursement of salaries:

1. **Preparation of Disbursement Voucher**: FAOs shall prepare Disbursement vouchers after checking all the deductions from salaries and forward the same for verification by Manager FAA.

2. **Deduction of Income Tax at source**: Income tax is deducted from the salary paid at the rates applicable in the Income Tax Ordinance, 2001. Tax deducted will be deposited into Government treasury within seven days from the date of

\(^{54}\) Section 4.6.12 of APPM

\(^{55}\) Section 4.6.5 of APPM
disbursement. Any adjustments needed for excess or short deductions are made at the end of the financial year.

3. **Checking:** Manager FAA will cross check disbursement vouchers from payroll sheets.

4. **Approval:** PD / DPD will approve the disbursement vouchers.

5. **Disbursement:** Salary is disbursed on the last working day of every month directly in the bank account of employees.

6. **Pay Slip:** FAOs shall issue pay slips to employees within two days of disbursement of salaries.

7. **Tax Certificate:** At the end of financial year, Manager FAA will issue certificates of deduction and deposit of income tax to employees.

### 7.1.2 Non-Salary Component

Following key steps are required to be followed\(^{56}\):

```
Temporary filing → Sanction → Deliverables → Claim Voucher → Approval → Pre-audit → Authorization
```

#### 7.1.2.1 Temporary filing

When an order is placed with a supplier\(^{57}\), copy of Purchase Order is received in Finance Section for temporary filing by FAO till payment. Similarly, when a contractor or consultant is hired, copies of Contract Agreement and TOR are received in the Finance Section.

#### 7.1.2.2 Sanction of Expenditure

Expenditure must be sanctioned by PD / DPD as per delegated financial powers\(^ {58}\) by Finance Department GoS. Sanction depends upon Availability of Budget (Form 4AA) and

\(^{56}\) Section 4.2.1.2 of APPM and NAM Training Manual Volume-II page 35  
\(^{57}\) Section 4.9 of APPM  
Purchase Order (Form 4A). No expenditure must be incurred in excess of the amount appropriated.

7.1.2.3 Receipt of Goods / Deliverables
When goods are received satisfactorily, Finance Section receives original Goods Received Note, Delivery Challan and Invoice from the Procurement Section. Similarly, when consultancy deliverables / contractor’s work are accepted satisfactorily, Finance Section receives original Invoice and Completion Report from the concerned section.

7.1.2.4 Preparation of Claim Voucher (Bill)
A claim voucher (bill) (Form 4B) is prepared by FAO for all payments that have been approved. Supporting documents that shall be attached to bills of suppliers, contractors or consultants are as follows:

1. Approved requisition from relevant section in-charge
2. Approved quotations
3. Copy of Purchase Order / Contract Agreement / TOR
4. Invoice along with supporting documents
5. Goods Received Note / Inspection Report

Preparation of claim voucher is explained in detail in Section 4.5.3 of APPM.

7.1.2.5 Approval of Expenditure
Claim voucher is approved by PM SS. He will be held personally responsible for the correctness of all claim vouchers (bills) bearing his signature. He will check the claim voucher for accuracy, propriety and compliance with authority as per government rules and regulations. He will ensure that no excess expenditure is incurred or the bank

---

59 Section 4.2.3 and 4.2.4 of APPM
60 Section 4.2.2.2 of APPM and Rule 9 of General Financial Rules Volume-I
61 Section 4.2.5 of APPM
62 Section 4.2.6 of APPM
account is not overdrawn. If balance in the bank account is not sufficient to cover the payment, he will not approve the claim voucher for payment until additional funds become available.

Based on the copy of Purchase Order, items ordered are compared with items received as stated in Goods Received Note, checking the delivery date, quantities and price. In case more than one item is purchased, added cost is allocated based on the value of items purchased. Discount received, if any, is treated as reduction in cost and allocated accordingly. If any advance has been paid to the supplier, it is adjusted from the payment to be made.

Similarly, in case of consultant or a contractor, deliverables / works are compared with Contract Agreement and TOR and related cost is allocated. Advances, if any, are adjusted from the payment to be made. If the Consultant has a long term contract where periodic payments are being made, deduction of advance is made as per agreed percentage from each payment till it is completely adjusted.

7.1.2.6 Pre-audit of Claim Vouchers (Bills)

Manager FAA shall pre-audit the claim vouchers to ensure that:

1. Claim vouchers are sanctioned by the competent authority (PD/DPD)
2. Claim vouchers are approved by the PM SS
3. Claim vouchers are submitted on appropriate form in triplicate
4. Claim vouchers are correctly classified, complete and arithmetically correct
5. Budget is available
6. Supporting documents such as contract agreement, invoice, purchase order, goods received note etc. are attached
7. Appropriate deductions like income tax, sales tax, late payment surcharge, stamp duty etc., if applicable, have been made
Details of pre-audit of claim vouchers is are provided in Section 4.5.6 of APPM.

7.1.2.7 Authorization of Claim Voucher

Approved and pre-audited claim voucher is then forwarded to PD for authorization of payment\(^{63}\). Authorized claim voucher is sent back to FAO for cheque preparation. Detailed procedure for authorization of payment is given in Section 4.5.7 of APPM.

7.1.2.8 Cheque Preparation

Upon receipt of authorized claim voucher, FAO prepares the cheque considering normal lag time between cheque preparation and its subsequent release to payee. Cheque, along with claim voucher and supporting documents is forwarded to signatories. Detailed procedure for cheque preparation is given in Section 4.5.8 of APPM.

7.1.2.9 Payment by cheque

All claims are paid through cheque apart from certain salaries, GP Fund, pension and inter-government transfers\(^{64}\). After the approval of claim voucher, cheque preparing FAO shall\(^{65}\):

1. write clearly, the date, name of payee, amount of cheque in words and figures on the cheque and its counterfoil
2. enter cheque number on payment voucher in the space provided
3. submit the cheque along with relevant vouchers to the authorized signatories who sign the cheque and its counterfoil
4. stamp ‘PAID’on all copies of vouchers and attached documents after the cheque is signed
5. enter the cheques in Cheque Dispatch Register
6. forward paid vouchers to FAO responsible for maintaining cash books and subsidiary ledgers

\(^{63}\) Section 4.2.8 of APPM
\(^{64}\) Section 4.3.1.1 of APPM
\(^{65}\) Section 4.2.9 of APPM
7.1.2.10 Release of Payment
Signed cheque is received back in Finance Section and details of disbursement are recorded. When payee claims payment, the cheque is released to payee personally or his authorized agent\(^{66}\). Acknowledgement receipt is obtained by the FAO.

7.1.2.11 Accounting Entries for Expenditure (General Ledger)
Cash books and bank books are maintained by FAOs in the Finance Section according to source of funds. These Books are balanced on daily basis and reconciled with the Cheque Dispatch Register. FAO posts approved voucher in the subsidiary general ledger or computerized information system and affixes ‘POSTED’ stamp in order to avoid duplicate postings. Following is entry\(^{67}\):

\[
\begin{align*}
\text{Dr} & \quad \text{Expenditure head account} \\
\text{Cr} & \quad \text{G01191-Cheque clearing Account-Assignment Account for GoS}
\end{align*}
\]

Once the bank statement is received, the FAO will pass the following entry:

\[
\begin{align*}
\text{Dr} & \quad \text{G01191-Cheque clearing Account-Assignment Account for GoS} \\
\text{Cr} & \quad \text{Assignment Account}
\end{align*}
\]

FAO will then enter the payment into the cash book where appropriate and relevant head of expenditure will mentioned against the payment in the relevant column. Payment will also be entered in the General Ledger under relevant head of account.

\(^{66}\) Section 4.2.9.9 of APPM  
\(^{67}\) Section 9 of Handbook of Accounting and Section 4.4.6 of APPM
7.1.3  **Reimbursement of Travelling Expenses**

Like other contingent expenditure claims, claims for travelling expenses\(^{68}\) of the officials of SBEP on Travelling Expenses Claim Form (Annex-25) duly approved and accompanied by all supporting documents are received in the Finance Section for reimbursement within three working days of receipt of the claim. Supporting cash memos / receipts are scrutinized by FAO to ascertain accuracy of amount claimed and to identify personal and official expenses. Based on scrutiny, amount payable (net of personal expenses and / or advances, if any) is worked out. Then the same process of verification and payment is adopted as described in detail above.

7.1.4  **Refund of Retention Money**

At the request of supplier for refund of his retention money, FAO will compare official receipt issued to him when the money was retained with the Retention Money Register. This process will initiate only on the written confirmation of Senior Procurement Specialist. After verification of the refund claim, Refund Authorization Slip (Annex-14) is prepared by FAO in duplicate by computing and noting net amount due to supplier, if any, and forwarding it to the concerned authority for approval, together with official receipt obtained from supplier.

Approved Refund Authorization Slip in original will be kept by the FAO in Finance Section. A duplicate copy will be retained for records purpose. Claim voucher is prepared by FAO and forwarded together with Refund Authorization Slip to Manager FAA for approval and then same procedure is adopted as described in detail above.

7.1.5  **Advances to Suppliers / Consultants / Contractors**

Advance payments\(^{69}\) can only be made if provision of an advance is included in the TOR / Contract Agreement signed with the supplier, consultant or contractor. Advance payment has to be against a bank / performance guarantee to protect public money.

---

\(^{68}\)FR 9(32)

\(^{69}\)Section 4.10 of APPM
advance payment shall be made in absence of such a guarantee. Advance payment must not be done merely to avoid lapsing of an appropriation\(^{70}\).

Supplier, consultant or contractor will be required to submit a written request to the Finance Section for release of advance agreed to in the contract agreement along with a bank / performance guarantee as a supporting document. Request will be verified by FAO to ensure that it is in accordance with the terms of contract agreement and supporting performance / bank guarantee is as per government regulations / requirements. After ensuring that the documents are in order, claim voucher will be prepared by FAO and forwarded to Manager FAA for further processing.

### 7.2 USAID Component

Specific activities will be financed by USAID funds through Activity Agreement and Project Implementation Letters (PILs)\(^{71}\). PILs will deal with specific milestones and project terms and conditions for funding and payments. Such payment mechanisms include:

1. Direct payments by USAID
2. Cost reimbursement upon submission of vouchers
3. Fixed-amount reimbursement
4. Performance based disbursements
5. Fixed obligation grants
6. Working capital advances

Type of implementation and payment will depend on a number of factors including nature of goods, works and services to be funded, their value, PMIU-SBEP’s capacity to meet financial and procurement requirements and past performance. The above mentioned payment mechanisms are explained as under:

---

\(^{70}\) Section 4.2.15 of APPM

\(^{71}\) Article 8, Section 8.03 of Activity Agreement
7.2.1 Direct Payments

USAID may make direct payments on behalf of PMIU-SBEP for goods, works and services received under terms and conditions of relevant Activity Agreement, which may further be specified in the subsequent PILs. Under this method, PD will submit an official request along with SF-1034 (Annex-19) to USAID requesting payments to a contractor and certifying that the amount claimed or billed by the contractor is appropriate for payment; that the goods, works or services were accepted and received in a satisfactory manner and that these were procured for authorized purposes as per the terms and conditions of the Activity Agreement.

‘Direct Payment’ shall be noted as a ‘Third Party Transaction’ for the purpose of reporting and an equivalent amount shall be entered as a ‘contra’ receipt from the donor to ensure that the fiscal balances match the monetary balances of SBEP. Manager FAA shall be responsible for reporting of third party payments. He will make sure that the details of this payment have been communicated in writing to EAD, Finance Department and AG Sindh. Following entry shall be passed for Direct Payment:

Dr  Expenditure under relevant detailed head of account
Cr   C036-Foreign Grant

Consultancy charges payable by USAID shall be paid after verification of services rendered by the consultant by PD72.

7.2.2 Cost Reimbursement

USAID may reimburse PMIU-SBEP for reasonable, allowable and allocable cost of goods and services under terms and conditions of relevant Activity Agreement, which may further be specified in subsequent PILs. Under this method, the PMIU-SBEP/contractor shall first make payments from its funds and then request reimbursement from USAID.

72 Section XVI of MoF Budget Wing Islamabad OM No. F.2(1)BR-II/2007-1618 dated July 27, 2011

47
Each request would include a voucher Form SF-1034 indicating the total cost for which reimbursement is being requested. Each contractor would also be required to acknowledge, by signature or an acceptable equivalent, receipt of such payment for services performed or goods delivered during this period. If necessary and appropriate, USAID may also issue advance payments in accordance with USAID regulations.

7.2.3 Fixed Amount Reimbursement

USAID may reimburse PMIU-SBEP at a fixed, predetermined amount for goods and services under the terms and conditions of relevant Activity Agreement, which may further be specified in subsequent PILs. Under this method, USAID will approve a fixed reimbursable value for the successful completion of specified activities in accordance with previously agreed-upon specifications and standards. Amount of reimbursement is based on reasonable cost estimates reviewed and approved by USAID. PMIU-SBEP will bear the risk if the actual cost of goods and services exceeds the fixed amount and shall bear the benefit if the actual cost is less than the fixed amount. PD shall have to request USAID on SF-1034 for re-imbursement. Payment by USAID shall always be conditioned upon successful completion of goods and services in accordance with the agreed upon specifications and standards.

7.2.4 Performance Based Disbursements

USAID may disburse funds to PMIU against completed actions, which will lead to a specific benchmark or indicator which are broader than specific goods and services, under the TORs of the relevant Activity Agreement, which may further be specified in subsequent PILs. Under this method, USAID will approve a reasonable estimate of the direct costs of actions needed to achieve a benchmark or indicator. The amount of the disbursement would not include:

1. Funds needed to affect future performance actions
2. Funds needed to create an incentive for performance
3. Indirect cost needed to accomplish the action

Amount of the disbursement will be the agreed-upon cost estimates, even if actual costs differ. If the disbursement benchmark is not accomplished as agreed, then disbursement will not be made. PD shall have to request USAID for reimbursement on the Form SF-1034.

7.2.5 Fixed Obligation Grants
USAID may disburse funds to PMIU against actions that will lead to a specified output, which are for a specific limited duration and have specified defined costs, which may further be specified in subsequent PILs. Under this method, USAID will support specific projects which have specified certain costs and readily identifiable outputs within a limited duration. Examples of such specific projects can include among others, setting up of conference or the purchase of supplies. This method is best suited when there is a limited risk that the grant activity will change. The amount of disbursement will be the agreed upon cost estimates, even if actual costs differ. PD shall have to send request to USAID on the form SF-1034 for disbursement of funds.

7.2.6 Working Capital Advances
If needed, USAID will provide an initial working capital advance to PMIU-SBEP in accordance with applicable US rules and regulations. The amount and currency of the working capital advance will be documented by USAID in the subsequent PILs. The working capital advance, as well as subsequent reimbursements, will be deposited into the Assignment Account. PD shall prepare Form SF-1034 with covering letter and send it to USAID for approval. USAID will approve the request and arrange for transfer of funds to the SBP. Advance payment will be adjusted against future reimbursements.
In all of the above mechanisms the FAO will send an Interim Payment/Payment Certificate to USAID along with Form SF-1034. USAID will get the Certificate verified from an independent third party and request the US Treasury to release the funds to the SBP. Upon receipt of funds, the SBP will inform the PD. However, sometimes an advance payment is required for project initiation and mobilization.
CHAPTER 8: PETTY CASH IMPREST

Handling of petty cash imprest will be carried out in accordance with the approved delegation of financial powers and strictly in accordance with the instructions contained in the succeeding paragraphs.

8.1 Establishing a Petty Cash Imprest Float

Specified limits of cash imprest are to be set by the Finance Department GoS in consultation with the PD depending upon the volume and value of transactions. Imprest balance requirements of Sections and Regional Offices should be quantified on monthly basis. However, for the sake of this Manual, a table of cash imprest limits is presented below:

<table>
<thead>
<tr>
<th>Location</th>
<th>Custodian</th>
<th>Limit</th>
<th>Replenishment Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>PMIU Karachi</td>
<td>Manager FAA</td>
<td>40,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Regional Offices</td>
<td>Director</td>
<td>20,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Separate imprest registers would be maintained at each Regional Office by the Accounts Assistants to record expenditure and receipt. Expenditure of pre-defined nature will be met out of the available imprest balance. Payments above Rs200 are made against approved payment vouchers supported by bills / invoices / cash memos duly verified by the concerned Sectional Heads. At day end, cash balance is duly counted, tallied with the Imprest Register and kept in the safe custody by the FAOs. Imprest Reimbursement Statement will be prepared by the FAO whenever replenishment is required for submission to the PD or DPD for reimbursement. Following are the steps involved in establishing Petty Cash Imprest Float:

74 Section 4.2.10 of APPM
75 Rule 132 of General Financial Rules Volume-I
76 Section 4.2.10.3 of APPM
1. **Request for Imprest Establishment**: Request for imprest establishment is made by Sectional Heads on Petty Cash Imprest Form (Annex-3) and forwarded to PD for approval.

2. **Approval of Imprest Request**: PD, in consultation with the relevant PM, approves the amount sought.

3. **Disbursement of Imprest Amount**: Approved imprest amount is disbursed to the imprest holder by Manager FAA.

4. **Safe Custody of Cash**: Safe custody of cash becomes responsibility of the person entrusted with petty cash imprest float. An officer, other than the disbursing officer (as assigned by the PD), will be entrusted with the custody of imprest account.

5. **Utilization of Imprest**: Petty cash imprest is utilized during routine operations for instance courier charges, official lunch, local travelling and other petty expenses. No procurement shall be made through imprest account in order to remain compliant with Income Tax Laws.

6. **Surprise Cash Count**: PD, DPD, PM SS, Manager FAA or any other authorized officer independent of imprest holding will make surprise cash count to check the correctness of record and existence of balance in hand. At least three such checks will be conducted during a financial year. Correctness or any deviation between Imprest Register and actual balance will be recorded for further necessary action.

8.2 **Petty Cash Expenses and Replenishment**

Following are the steps to replenish petty cash:

1. **Recording of Petty Cash Expenditure**: Petty Cash Reimbursement Statement (Annex-4) is used to appropriately record petty cash expenses. FAO will ensure that each payment is supported by original receipts. These documents will be marked ‘PAID’ to prevent re-use.
2. **Review and Verification of Expenditure**: Petty Cash Reimbursement Statement along with relevant supporting documents is submitted to FAO for verification.

3. **Replenishment**: Manager FAA will obtain approval of PD or DPD on Petty Cash Reimbursement Statement and the approved amount is replenished to imprest holder.

### 8.3 Revision of Imprest Amount

There is no limit on number of replenishments of petty cash. However, the amount of petty cash float may be enhanced to ensure smooth operations due to increase in target area or if the relevant approving authority for such replenishments is out of country or on leave for a duration of more than a month. Following is the procedure for getting the imprest amount revised:

1. **Request for Revision**: Request to increase or decrease existing imprest amount is made to PD on Petty Cash Imprest Form by the Sectional or Regional Heads.

2. **Recommendation of Revision**: Explanations underlying the requested revision are examined by the Manager FAA in consultation with PM SS.

3. **Approval of Revision**: Petty Cash Imprest that has been recommended by PM SS is then approved by PD or DPD. It is then forwarded to FAO to ensure that future float reimbursements are made in accordance with the new level.

### 8.4 Entries in Books of Accounts

Following will be the double entries of petty cash in the books of accounts\(^77\):

(i) to establish petty cash float:

<table>
<thead>
<tr>
<th>Debit (Dr)</th>
<th>Credit (Cr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty cash account</td>
<td>Cheque clearing account</td>
</tr>
</tbody>
</table>

\(^77\) Section 4.4.6.6 of APPM
(ii) to record the amount cleared from the bank account (this will be the date as per bank return):

Dr Cheque clearing account

Cr Bank account

(iii) to record expenditure on receipts of petty cash vouchers (to be made simultaneously with entry below):

Dr Expenditure

Cr Petty cash account

(iv) to reimburse the original petty cash float (to be made simultaneously with above entry):

Dr Petty cash account

Cr Cheque clearing account
CHAPTER 9: FINANCIAL REPORTING

Timely, complete and accurate disclosure of financial information provides a basis for better decision-making, thus speeding physical progress of SBEP, availability of funds and reducing delays and bottlenecks.

Manager FAA will prepare following quarterly progress reports for USAID and PSC on the prescribed formats:

1. Sources of funds accompanied by copies of bank statements 78 (Annex-17)
2. Uses of funds as per Program Activity (Annex-18)
3. Statements of Expenditure
4. Physical Progress Reports (Annex-15 and 16)

PD will furnish these progress reports to USAID and PSC no later than fourteen days after the end of quarter 79. Financial information will be linked to physical progress and procurement (where possible) to give assurance that financial and physical progress are consistent 80. PD may use PC-III format (Annex-27) of physical and financial progress to submit quarterly reports 81. Monitoring of expenditure in relation to physical progress is a key aspect of ensuring that SBEP is under proper financial control. Apart from above, PD will submit consolidated Internal Audit Reports to USAID on annual basis within forty five days of the year end.

Following information will be shared by Manager FAA with AG Sindh, Karachi:

1. Disbursements / releases made by USAID in Assignment Account against Budget Demand of SBEP will be intimated to AG Sindh 82.

---

78 Section 9.02, Article 9 of Activity Agreement
79 Section 9.02, Article 9 of Activity Agreement
80 Section 226.21(a) of US Code of Federal Regulations 22CFR226
81 Section 7.01, Article 7 of the Activity Agreement
82 Section XVI of MoF Budget Wing Islamabad OM No. F.2(1)BR-II/2007-1618 dated July 27, 2011
2. At the end of each month, SBEP’s expenditure will be reconciled with NBP and a function-cum-object-wise Monthly Account of Expenditure / Statement of Expenditure (SoE) will be prepared. This SoE will be submitted to AG Sindh on monthly basis along with vouchers by 7th of following month. AG Sindh will reconcile the figures. In case of variations, PD will reconcile with AG Sindh and remove the said variations. After reconciliation, AG Sindh will consolidate the SBEP’s accounts in the Civil Accounts.

3. Annual statement of expenditure against budget referred to as Annual Appropriation Account will be prepared and published, duly certified by the Auditor General of Pakistan. This report must provide, for the whole financial year just completed:
   a. comparison of actual expenditure with original and supplementary budget
   b. Details of excesses and surrenders and supporting explanatory notes
   c. Comparison of actual expenditure with previous year actual

4. Annual Accounts of SBEP will be prepared, which will include Receipts and Payments and an indirectly ascertained balance sheet with details given in the notes.

5. Quarterly Fixed Assets Statement providing details like asset categories, cost at the beginning of reporting period (for each category), additions during the reporting period (at cost), disposals during the reporting period (at cost) and cost at the end of reporting period.

---

83 Section 7.2.2 and 7.4.2 of APPM
84 Section 1.4.6.a(1) of Financial Reporting Manual and Section 6.5.3.5 of APPM
85 Section 4.2 of Financial Reporting Manual
86 Section X of MoF Budget Wing, Islamabad Office Memo No.F.2(1)BR-II/2007-1618 dated July 27, 2011
87 Section 3.3.14 of APPM
88 As per Section 226.21(b)(1) of 22CFR226, USAID requires reporting on an accrual basis. However, if the recipient maintains its record on other than an accrual basis, then it is not required to establish an accrual accounting system. The recipient may develop such accrual data for its report on the basis of an analysis of the documentation on hand.
89 Section 13.4.5 of APPM
Program Completion Report i.e., PC-IV shall provide the following information:

1. Comparison of actual accomplishments with goals and objectives established for the period. Quantitative data of output of SBEP should be related to cost data for computation of unit costs, where possible.
2. Reasons of not meeting established goals.
3. Other pertinent information including analysis and explanation of cost overruns or high unit costs.

Within three months of completion of each sub-program, PD will submit a Program Completion Report to USAID and Finance Department GoS after approval of PSC.
CHAPTER 10: INTERNAL AUDIT

Internal Audit is an integral component of financial management to examine and verify adequacy and effectiveness of internal controls of an organization. Internal Audit helps an organization to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes. Absence of Internal Audit component results in numerous issues being unidentified and unresolved, leading to collapse of value-system and organizational bonding. To conclude, Internal Auditing has a preemptive effect and thus serves as deterrence to many irregularities and inefficiencies.

10.1 Objectives of Internal Audit

Objectives of Internal Audit should be:

1. Review of internal controls at PMIU-SBEP, their compliance, adequacy and effectiveness.
2. Performance appraisal of and value addition to the operations of PMIU-SBEP for good governance and accountability.

10.2 Scope of Audit

Internal Audit of PMIU-SBEP would cover the entire Program i.e., all sources and application of funds as considered necessary for the audit. Internal Auditor will conduct an assessment of business activities (financial and non-financial) and internal controls thereof. This would include the following aspects:

1. Review program risk profiling (prepared by management), risk assessment procedures and report on adequacy and effectiveness of risk assessment process.
2. Ensure compliance with rules and regulations in all business activities as envisaged in approved Frameworks and Manuals, Internal Control System, PC-Is,
Activity Agreements, PILs etc. Auditor should suggest methods for improving weak controls or creating them where these controls do not exist.

3. Ensure proper maintenance of books of accounts for timely and accurate reporting of Program activities.

4. Efficiency and timeliness of funds flow mechanism for SBEP activities.

5. Ensure existence of key internal controls for expenditure processing.  

6. Ensure existence of an adequate system for procurement of goods, works and services in accordance with the procurement procedures prescribed for SBEP.

7. Ensure existence of an appropriate system of accounting and financial reporting on the basis of which claims are prepared and submitted for reimbursement.

8. Ensure maintenance of adequate record of assets created and acquired by SBEP.

9. Provision of timely information on various management and operational aspects.

10. Recommend improvements to enable PD to take timely corrective actions wherever necessary.

11. Verify compliance with the recommendation of the internal audit report of the previous period (s) and provide comments thereon.

12. Follow-up action in the shape of regular and frequent visits to regional offices as well to check adherence with internal control requirements.

10.3 Procedure

Internal Audit should be conducted on quarterly basis. It should be carried out in accordance with the Internal Auditing Standards of Institute of Chartered Accountants of Pakistan, and will include such substantive and control tests as the Internal Auditor considers necessary under the circumstances.

Internal Audit will perform audit of receipts and expenditure of the SBEP by checking cash book / bank books along with relevant supporting vouchers and documents. The Auditor will place emphasis on verifying the Assignment Accounts, SF-1034 and

---

90 Section 4.5.1.3 of APPM
Statements of Expenditure as per budget allocation, approved invoices and vouchers in accordance with the procurement procedures. Auditor will ensure that the payments are made from the relevant bank account and recorded / classified in the proper head of account. Transactions recorded under incorrect account heads will be identified for correction through proper documentation duly approved by Manager FAA.

A materiality level may be fixed and all material transactions should be reviewed by the Internal Auditor. Internal Auditor shall conduct audit of finalized / completed contracts and submit complete contract audit reports.

Cases not conforming to prescribed payment procedures will be highlighted and recommended to the PD for corrective action.

Besides transactional audit, the Internal Audit will also review business activity systems and procedures with a view to identify redundant processes and strengthening of internal controls.

10.4 Reporting

Internal Auditor shall report to the PD. A copy of the report shall also be sent to the PSC for information. The audit report shall provide assurance to the PD that the program progress is in line with the prescribed procedures.

In addition to detailed internal audit report, the auditor should provide an Executive Summary mentioning status of action on the previous recommendations and highlighting critical issues which require immediate attention of the management.
CHAPTER 11: STATUTORY AUDIT

Activity Agreement No. 391-013 for SBEP signed between GoS and USAID on September 21, 2011 envisages that the Auditor General of Pakistan will audit the accounts of SBEP\(^91\). However, an independent entity may be hired and utilized by USAID for verification and scrutiny of record submitted by GoS to USAID for final review and payment\(^92\).

The audited statements would be submitted to the USAID and GoS within six months from the end of the fiscal year. The Annual Audit Report will consist of an opinion on the health of Program’s Financial Statements and a Management Letter. Manager FAA shall be the liaison officer for these audits.

---

\(^{91}\) Article 8.02(c) and 9 of Activity Agreement

\(^{92}\) Article 8, Section 8.02(c) of Activity Agreement
Bibliography

1. Accounting Policies and Procedures Manual (APPM), Department of Auditor General of Pakistan, Government of Pakistan, Islamabad
2. Accounting Policies and Procedures Manual Forms (APPM Forms), Department of Auditor General of Pakistan, Government of Pakistan, Islamabad
3. Activity Agreement No. 391-013 of SBEP signed by and between GoS and USAID on September 21, 2011
4. Auditor General’s (Functions, Powers and Terms and Conditions of Service) Ordinance No. XXIII of 2001
5. Chart of Accounts, Department of Auditor General of Pakistan, Government of Pakistan, Islamabad
16. Handbook of Accounting Guidelines, Department of Auditor General of Pakistan, Government of Pakistan, Islamabad
17. Manual of Accounting Policies, Department of Auditor General of Pakistan, Government of Pakistan, Islamabad
18. New Accounting Model Training Manuals Volume-I and II, Department of Auditor General of Pakistan, Government of Pakistan, Islamabad
19. PC-I of SBEP signed by and between Education and Literacy Department GoS and USAID on March 24, 2012
20. PIFRA Website available at http://pifra.gov.pk/
22. Sindh Public Procurement Rules, 2010
23. Treasury Rules Volume-I
26. USAID Risk Mitigation Framework (RMF) of Education & Literacy Department, GoS and SBEP