



**Islamic Republic Of Afghanistan
Kabul Municipality**



**FINANCIAL MANAGEMENT POLICY
ADMINISTRATION AND FINANCE DEPARTMENT**

H.E Mohammad Yonus Nawandesh

Signature: _____



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1. Purpose and Objective:

Kabul Municipality is committed to good stewardship of the public funds and assets of the municipality.

The following policies provide the guidelines necessary to stay in legal compliance and meet the needs of the Kabul community both now and in the future. For some of the following policies are separated policies developed and there will be referred to in this policy.

2. Scope:

Financial Management policies are the specific principles, bases, conventions, rules and practices adopted by the Kabul Municipality in preparing (accounting) and presenting financial statements, managing cash flows and accounting for the expenses. These policies are in compliance with the Public Finance and Expenditure Law (PFEML) and the Financial Regulations adopted by the Government of Afghanistan. Both Law and Regulation need to be overhauled because they are quite unsuitable for application in municipal surroundings.

The Kabul Municipality which is essentially an autonomous public entity is utilizing two fund sources to finance its operations and the delivery of services to the Kabul citizens. The sources are development budget funded through the core budget of the Ministry of Finance and the internal budget (Ordinary and Development) financed through the revenues the KM collects.

3. Definitions:

3.1 COA = Chart of Accounts, a new chart was developed and excepted by Ministry of Finance and KM Management in Saur 1390/ May 2011

3.2 Control and Audit Office = Office of the Ministry of Finance that acts as external auditor for the other departments and KM

3.3 FMIS = Financial Management Information System, this system is introduced in June 2011 and all efforts are now made to implement the system in the several departments and to make it operational for the year 1392

3.4 IPSAS = International Public Sector Accounting Standards

3.5 PFEML = Public Finance and Management Law from Saratan 1384/ June 2005 (Official Gazette 856)

3.6 PFEMR = Public Financial Management Regulation from Saur 1385/May 2006 (Official Gazette 893)

4. Policy on Accounting for Expenditure and Revenue



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The Kabul Municipality adopts the Cash Basis standard of the International Public Sector Accounting Standards (IPSAS). Revenue, expenditure, appropriations, and allotment advices are measured on a cash basis. According to IPSAS, cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

- 4.1 The Accounts and Revenue departments are required to account for all revenues collected and expenditures incurred for the purpose of delivering services and goods. The departments are responsible for keeping their accounting records based on the procedures set by Financial Regulations adopted in 1385;
- 4.2 The Accounts and Revenue departments are required to record without exception all revenues and expenditures on daily basis according to their source, date of deposit/payment and amount. All such revenues and payments shall be classified according to their nature as per the Chart of Accounts on a daily, monthly, quarterly and annual basis;
- 4.3 Appropriations, allotments, revenue, expenditures and advances shall be entered into FMIS on real time basis without any delay and shall be reconciled with the bank statement on weekly basis;
- 4.4 The KM is required to establish classification systems, which must provide for analysis by organization, program, project, object, location, function and economic category. Therefore, the Budget department shall annually issue chart of accounts, containing classification codes taking into account the requirements of accounting controls and reporting budget and financial information. The accounts and revenue departments are required to follow the chart of accounts while reporting to the management and recording expenditures and revenues;
- 4.5 The FMIS performs a number of controls at different levels of the budget execution, such as budget appropriations, allotments, expenditures and advances. Once the budget is appropriated (approved), the budget unit shall manually input the budget into the FMIS to provide budget guidance and to control (the variances) the allotments and expenses;
- 4.6 When the budget is recorded into the system, allotment levels shall be allocated to the various programs/departments as a control mechanism to ensure that appropriations are not exceeded by the issued allotments;
- 4.7 The payment requests are then entered by into FMIS and payment forms such as M16 are printed and along with other supporting documents are submitted to the head of the accounts department. The head of the accounts department shall check the validity of the payment requests and post the transaction into the system against the issued allotment;
- 4.8 The Revenue Department shall make sure to prepare and file a bank reconciliation report using the prescribed template tallying the revenue and expense accounts on weekly basis. The department shall record all the bank charges and interest earned/paid into their books of accounts to agree with the bank statement;
- 4.9 The Revenue Department shall provide adequate direction and guidance to the district officials on revenue collection, chart of accounts, record keeping and accounting for revenues in order to ensure compliance with the requirements of the KM;
- 4.10 The accounts and revenue departments are required to keep all accounting records and information in their original form unless otherwise advised by the Financial Regulations. These accounting records include information relating to one fiscal year, that is, for one year after the external audit



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report is issued by the Control and Audit Office, and for all other fiscal years subject to the retention policy set by the Financial Regulations;

4.11 As per the Financial Regulations, the following standards apply to the retention of the certain types of accounting records and illustrate the number of years after which KM can dispose of the records. After the expiry of the retention periods, the information may, if required, be secured in an alternative form that would ensure the integrity and reliability of the data and would ensure that information can be reproduced, if necessary;

Type of record	Number of years after which records can be disposed of
General ledger and cash books or similar records	15
Main transaction summary records, including general journals and transaction summaries Internal audit reports, System appraisals	10
Primary evidentiary records, including copies of forms issued for value, vouchers to support payments made, pay sheets, returned warrant vouchers or checks, invoices and similar records associated with the receipt or payment of money, Subsidiary ledgers, including inventory cards and records relating to assets no longer held or liabilities that have been discharged	5
Supplementary accounting records, including, for example, cash register strips, bank statements and time sheets	5
General and incidental source documents not included above, including stock issue and receivable notes, copies of official orders (other than the copies used to substantiate payments or for unperformed contracts), bank deposit books and post registers	5

5. Policy on Purchase Commitments

5.1 The service department of KM shall account and report for the purchase commitments strictly in accordance with the procedures determined in the Procurement Law 2008 and the subsequent amendments or applicable international agreements for the procedures of procurement. Commitments in the current fiscal year shall be made strictly according to the allotment advice issued to the department;

5.2 No expenditures may be incurred nor payments made without first being properly authorized and checked for budget and allotment availability, except petty cash payments made within the amount of imprest advance extended to district offices or service unit. Legal agreement on



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grants, loans, and borrowings shall serve as a basis for the commitment for related payments. Suppliers' invoices may serve as a commitment for purchases that do not require contracts. Petty cash payments do not require documented commitment.

6. Policy on Cash Management

The KM has an obligation to raise the current level of revenues to meet the emerging needs of the Kabul citizens and to accomplish the services defined in the Municipality Act. In order to ensure that there is adequate cash to fund the KM's operations, following policies are adopted to further strengthen the cash flow management.

- 6.1 Revenues should be collected when it is due and must be banked promptly;
- 6.2 The KM shall make payments to suppliers not earlier than necessary, with due regard for efficient, effective and economical program implementation and the government's normal terms for account payments;
- 6.3 The KM shall avoid prepayments for goods or services, unless required by the contractual arrangements with the supplier;
- 6.4 Discounts for early payment shall only be accepted when the payment has been included in the monthly cash flow estimates provided by to the Revenue Department;
- 6.5 The debtors should be regularly pursued with appropriate sensitivity that amounts receivable by the government are collected and banked promptly;
- 6.6 The Revenue and Accounts department is advised to forecast cash flow requirements on monthly basis and submit it to KM management to ensure sufficient cash availability for the planned activities of the municipality;
- 6.7 The KM shall take all other actions that avoid locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level and selling surplus assets;
- 6.8 District offices and Service units may request cash in advance after the approval of the management from the accounts department to meet petty cash commitments. All advances must be acquitted within 45 days from the date of advance through the M12 Form and be supported by a Statement of Expenditure (SOE);
- 6.9 FMIS monitors cash advances made to district and service units to ensure that advances are acquitted in timely manner and that they do not accumulate to unreasonably high levels. The advances received shall be acquitted before the end of the fiscal year;
- 6.10 Advances shall not be issued to district offices or programs that has un-acquitted advances of over 45 days. In such circumstances, the cash advance requests may be rejected.

7. Policy on Financial Reporting



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The Accounts department of the KM is periodically preparing financial reports on quarterly, biannual and annual basis. Financial reports prepared under the cash basis shall provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein. Narratives on the financial reports may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

- 7.1 The Accounts and Revenue departments are advised to present revenue and expenditure accounts in its gross form. This is based on Article 3 of the PFEML which states: “Revenues and expenditures of budget entities shall be presented on a gross basis.” Therefore, it is highly prohibited for KM to offset expenditure with revenues;
- 7.2 The Accounts department shall submit a reconciled expenditure report on monthly, quarterly and annual basis outlining purposes of the expenses in accordance with the Chart of Accounts. The expenditure report shall be reconciled with the payments unit to ensure that the expenses are matching the bank statement;
- 7.3 The expenditure shall be reported against the allotment advices approved earlier and shall present the remaining balance of the allotment at the detailed level of the expenditure. In case of over spending, the accounts department shall also provide the management with narratives to clarify the over spending;
- 7.4 The revenues collected shall be reported against the revenue projections and should specify at the detailed level the types of revenues and the collecting departments/districts;
- 7.5 Through FMIS, the Accounts department shall provide the Deputy Mayor with the management report presenting the expenditure against budget on regular basis. The report shall enable the DM to control expenses and ensure there are no significant over/under variances.
- 7.6 Based on Article 54 of the PFEML, the Treasury Department of the MoF is responsible for the collection and consolidation of the accounting data and reporting it to the National Assembly and Presidential office. The Kabul Municipality is required to provide timely reports and information to the Treasury Department based on the procedures prescribed by the MoF.

8. Consequences of Violations

Willful or blatant violation of this policy may result in disciplinary action.

Refer to Disciplinary policy of Kabul Municipality

9. Policy Evaluation

This policy should be regularly evaluated to ensure it is enabling and effectively moving Kabul Municipality towards its sustainability goal.

10. Policy Enforcement

The contents of this policy are enforceable after His Excellency the Mayor’s approval