FINANCIAL MANAGEMENT

STANDARD OPERATING PROCEDURE

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Signature: ______________
<table>
<thead>
<tr>
<th>Acronyms</th>
<th>Description</th>
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<tbody>
<tr>
<td>ANDS</td>
<td>Afghanistan National Development Strategy</td>
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<tr>
<td>CoA</td>
<td>Chart of Accounts</td>
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<tr>
<td>DG</td>
<td>Director General</td>
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<td>DM</td>
<td>Deputy Mayor</td>
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<td>FMIS</td>
<td>Financial Management Information System</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<td>KM</td>
<td>Kabul Municipality</td>
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<td>LM</td>
<td>Line Ministry</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>PFEM</td>
<td>Public Finance and Expenditure Management Law</td>
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<td>SoP</td>
<td>Standard Operating Procedures</td>
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Definitions: The following definitions apply to this Standard Operating Procedure:

ACCOUNTING

Accounting in government refers to the practice of collecting, recording, classifying, summarizing, analyzing, communicating and reporting accounting transactions to ensure transparency, disclosure and accountability of accounting data management and timely reporting on revenues and expenditures.

ASSETS

According to IPSAS, Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. From an accounting perspective, assets are divided into the following categories:

- Fixed Assets
- Current Assets

BUDGET ENTITY

A government entity that holds the powers of incurring commitments on behalf of the state and having allotment advice issued pursuant to appropriation for settling the commitments.

CASH

Comprise cash on hand and demand on deposits.

CASH EQUIVALENTS

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH RECEIPT

Cash inflow or similar transaction increasing the balance of public money.

CASH PAYMENT

Cash outflow or similar transaction with the purpose of settling commitment, acquire fixed assets or in reducing liability.

EXPENDITURE

The decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

FMIS
Islamic Republic Of Afghanistan
Kabul Municipality

Financial Management Information System (FMIS) – computer system used for keeping and controlling the accounts of the Kabul Municipality, storing and providing the information necessary for transaction processing and the financial management decisions.

**LIABILITIES**

Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

**REVENUE**

The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

**Background**

The SoP on Financial Management covers important accounting and financial reporting procedures in compliance with Public Finance and Expenditure Management Law (PFEM) and other corresponding rules and regulations applicable to KM. The procedures include guidance on the use and application of the Chart of Accounts (classifications) and the proper use of the Financial Management Information System (FMIS). The descriptions and instructions in this manual deal with accounting procedures for:

1) Appropriation, apportionments and allotments;
2) Revenues and receipts;
3) Prepayments, advances and expenditures; and,

**Procedures for Using FMIS**

The Financial Management and Information System (FMIS) is designed and developed for KM to facilitate overall performance of budget preparation, budget amendment, budget execution, and reporting of expenditures and revenue in standard reporting templates. Preparation of narratives from program to activity level, cash management and bank account management are the integral parts of the database. Reporting switchboard is devised to facilitate generating of reports from daily management reports to quarterly, year-end, and final reports in a variety of formats and contents.

The FMIS shall be used in every step starting from budget preparation, allotment, payments, check printing and reporting. The following figure summaries the steps for using the FMIS.
1. Record Approved Budget in Budget Module of FMIS

2. Generate form B27 after allotment is approved

3. Use form M16, M10 and M12 to process transaction using the approved and Chart of Accounts

4. After M16 and other supporting documents approved, record check details.

5. Reconcile Payments and Receipts with manual books.

6. Generate Bank Reconciliation Report from FMIS

7. Generate the financial reports in the approved templates
Procedures for Budget Execution

1) Budget preparation process involves budget requests from district offices and general departments that are consolidated by Policy and Coordination Unit and Budget Unit. The budget should be prepared based on the ANDS sector milestones. Please refer to SOP on Budget for detailed procedures.

2) Budget approval process involves approval by MoF and President’s Administrative Office. For projects funded through MoF, the approval process is extended to council of ministers and parliament.

3) - Contract Signed b/w KM and Contractors (for service delivery, construction of infrastructure, etc)
   - Contractor starts the work and sends the invoice and progress report for approval by DM Technical and submitted to Policy and Coordination.
   - Policy and Coordination Unit submit the documents to Finance and Administration for payment.

4) The process of payments is undertaken by Finance and Administration department within the approved appropriated budget and allotment levels.
   - The revenue department is responsible to collect revenue from fees and charges.
   - Finance and Administration Department also incurs salary payments and performs management of inventory accounts.
   - Upon receiving the request from departments, allotment is requested. For Projects funded through MoF, allotment is requested using B27 and PCS from MoF.
   - After the allotment is issued, the accounting unit processes payment using M16 and other forms and submits it to Payment unit for issuing check.

5) Cash Management is one of the responsibilities of Payment and Asset Management units. It involves settlement of debts and commitments, cash flow management and cash forecasts.

6) Final Qatia report is prepared which is then reconciled with bank and manual records.

7) FMIS reports are generated in the end of the year for reporting and reconciliation purpose.

8) External Audit is performed by CAO after the end of the fiscal year.
Usage of Chart of Accounts

A Chart of accounts is a list of all accounts and account codes that are used to keep track of the various accounting operations. Every transaction must be properly coded and then posted to the relevant account in the ledger. The KM uses a standard chart of accounts which is developed in conformity with the MoF Chart of Accounts. The CoA must be revised on annual basis to take into account new interventions, projects and new revenue categories and shall be coded into the FMIS. The six segments of the CoA structure comprise:

1) Organization (2), sub-organization (4) and unit (5) digits code
2) Program (3), sub-program (4) and activity (5) digit codes,
3) Revenue Major (2), Sub-major (3), Minor (3) and revenue object (5) digits code,
4) Project Codes (6) digit codes,
5) Location (2) province, district offices (4) digits code,
6) Expenditure Major Object Codes (2), Sub-major (3) and object (5) digits code.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Program</th>
<th>Revenue</th>
<th>Location</th>
<th>Object</th>
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<tbody>
<tr>
<td>Ministry or indep. entity (2)</td>
<td>Program (3)</td>
<td>Major (2)</td>
<td></td>
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<tr>
<td>Sub-organization (4)</td>
<td>Sub-program (4)</td>
<td>Minor group (3)</td>
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<td></td>
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<tr>
<td>Unit (5)</td>
<td>Sector (2)</td>
<td>Major group (2)</td>
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<tr>
<td></td>
<td>Activity (5)</td>
<td>DAD (7)</td>
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<td></td>
<td></td>
<td>Object (5)</td>
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<td></td>
<td></td>
<td>Province (2)</td>
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<td></td>
<td></td>
<td>District Office (3)</td>
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<td></td>
<td></td>
<td></td>
<td>Minor group (3)</td>
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<td></td>
<td></td>
<td>Object (5)</td>
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The following procedures shall be used while using the chart of accounts:

1) Once the transaction has occurred or is about to occur, analyze the transaction and find out which accounts will be affected by the transaction. At KM, most of the transactions are categorized as Expense or Revenue.

2) After the transaction has been analyzed, find the relevant code in sheet “Organization” of the CoA to insert the code of the department who initiated the transaction.
3) In this step, insert the appropriate activity code under sub-program and program category to which the transaction relates.

4) The next step is to put the code of location. The location codes are classified KM headquarter which is 0101 and district offices which ranges from 7901- 7922.

5) If the transaction is related to project payments, then the correct project code shall be identified. The projects are categorized into MoF projects and internal projects.

6) In the last step, put a correct object code of revenue or expense which is 5 digit code.

Financial Reporting

The KM financial officials are required to comply with the reporting requirements of Ministry of Finance (MoF) and the KM management. The bookkeeping unit and other reporting units are required to produce truthful and timely reports in compliance with the due procedures issued by KM and management. On monthly basis, the bookkeeping manager is required to submit and file the following reports:

1) Reconciled Project Wise Disbursement Report (for MoF funded projects),
2) Reconciled Project Wise Disbursement Report internal projects,
3) Object wise summary report at minor level based on the Chart of Accounts,
4) Object wise detailed report at object level based on the Chart of Accounts,

The district offices are also required on monthly basis to submit a reconciled revenue report in the following template. The report should be based on the revenue classification codes of the updated CoA and must be reconciled with bank transfers. The report will enable the Asset Management Unit in the center to record the revenue flows in FMIS and generate multiple revenue reports to the management. The report will also enable the management to control the revenue targets and provide motivational incentives for district offices that have achieved their revenue targets.