FINANCIAL POLICY AND PROCEDURES

1. DEFINITIONS OF BASIC ACCOUNTING TERMINOLOGIES

The following are the definitions of basic accountancy terminologies that have been used in this manual. However, this is not an exclusive list of terminologies and the applicable reporting framework should be referred for further explanation and definition of other related concepts:

1.1. ASSET

An asset is a resource:

- If it is controlled by "SSDO" as a result of past events; and
- If the future economic benefits are expected to flow to SSDO.

1.2. INTANGIBLE ASSET

An intangible asset is an identifiable non-monetary asset without physical substance.

1.3. MONETARY ASSET

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

1.4. CORPORATE ASSETS

Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

1.5. LEASE

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The lease can classify into the following two categories:

1.5.1. FINANCE LEASE

A finance lease is a lease that transfers substantially, the entire risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

1.5.2. OPERATING LEASE

An operating lease is a lease other than a finance lease.

1.6. LEASE TERM

The lease term is the non-cancelable period for which lessee has contracted to lease the asset together with any further terms for which the lessee has agreed at the inception of the lease period.

1.7. DEPRECIATION

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

1.8. DEPRECIABLE AMOUNT

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

1.9. AMORTIZATION

Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

1.10. USEFUL LIFE

Useful life is either:

- The period of time over which an asset is expected to be used by the "SSDO"; or
- The number of production or similar units expected to be obtained from the asset by the "SSDO".

1.11. CARRYING VALUE

Carrying amount is the amount at which an asset is recognized in the balance sheet after deducting any accumulated depreciation and accumulated impairment loses.

1.12. REVALUATION

Revaluation is a method, which when applied results in an increase or decrease in the value of an asset. Assets are revalued to arrive at the fair value of an asset.

1.13. INVESTMENTS

An investment normally includes the following:

- Term finance certificates
- Participation term certificates
- Government bonds
- Marketable securities
- Redeemable capital

1.14. MARKET VALUE

It is the price at which a security may be realized at an arm's length transaction.

1.15. QUALIFYING ASSET

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

1.16. RELATED PARTY

A party shall be a related party with the "SSDO" if:

- The party is an associate SSDO of the "SSDO".
- The party is a joint venture in which the "SSDO" is a venturer.
- The party is a member of the key management personnel of the "SSDO" or is the parent entity of the "SSDO" or vice versa.
- The party is a post-employment benefit plan for the benefit of employees of the SSDO or of any entity that is related party of the "SSDO".
- The party controls or is controlled by, or is under common control with the "SSDO" (this includes the parent entity, subsidiaries and fellow subsidiaries).

1.17. MATERIAL

Omissions or misstatements of items are material only if they could, individually or collectively; influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

1.18. RETROSPECTIVE RESTATEMENT

Retrospectively restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

1.19. REVENUE

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of the "SSDO" when those inflows result in an increase in equity, other than increase relating to contributions from equity participants.

2. ROLE OF FINANCE& PROCUREMENT DEPARTMENT

Finance & Procurement Department plays an important role as a back office in the effective and efficient management of the SSDO operations. The most important function of the Finance & Procurement Department is to accumulate the financial information from all Departments of the SSDO including the field offices and to prepare the financial statements. The Finance & Procurement Manager shall have the overall responsibility of the Finance & Procurement Department of the "SSDO". The Finance & Procurement Manager would be involved in the day-to-day monitoring of the department's functions, which shall be carried out by the department's staff.

The main tasks that will be handled by the Finance & Procurement Department are stated below:

- Recording of financial information
- Preparation of financial statements
- Reporting to internal management and external authorities
- Taxation
- Payments
- Reconciliations
- Recording of Fixed Assets
- Budgeting

2.1. RECORDING OF FINANCIAL INFORMATION

It is the responsibility of the Finance & Procurement Department to accumulate and record information regarding all expenses, income, assets and liabilities from all the Departments of the SSDO including the field offices, which shall become the basis for the preparation of financial statements.

2.2. PREPARATION OF FINANCIAL STATEMENTS

Finance & Procurement Department is responsible for the timely preparation of the periodic financial statements along with all the disclosures as required by the applicable financial reporting framework.

2.3. REPORTING TO INTERNAL MANAGEMENT AND EXTERNAL AUTHORITIES

Finance & Procurement Department is responsible for the preparation of various reports for submission to senior management / management committee within the purview of its financial reporting responsibilities.

2.4. PAYMENT TO SUPPLIERS

Finance & Procurement Department is responsible for making payments for various supplies and services. For the purpose of making petty cash payments, the Finance & Procurement Department shall maintain a cash balance on a floating basis with a limit prescribed by the management committee.

2.5. PREPARATION OF RECONCILIATIONS

Finance & Procurement Department is responsible for the preparation of following reconciliations on a timely basis:

- Quarterly accounts;
- Monthly expenditure reporting to donor;
- Bank reconciliations;
- Field offices accounting transactions;

2.6. RECORDING OF FIXED ASSETS

It is the responsibility of the Finance & Procurement Department to ensure that all expenditure capitalized, is in accordance with the management's capitalization policy. Finance & Procurement Department shall ensure the accurate calculation of the depreciation charge and that the carrying values of the assets are correctly stated in the financial statements.

It is the responsibility of the Finance & Procurement Department to ensure that purchases of fixed assets are properly authorized and payments are made after all relevant supports are made available to the Finance & Procurement Department for the purchase of the fixed assets. It shall also be the responsibility of the Finance & Procurement Department to record properly the addition and disposal of fixed assets.

2.7. BUDGETING

Based upon the inputs from respective functional departments and the assist in preparation of budgets for upcoming projects.

3. CUSTODY AND ACCESS

This manual is a confidential document and shall remain in the permanent custody of the following authorities:

- Finance & Procurement Department

4. MANUAL IMPLEMENTATION, MAINTENANCE AND UPDATING

4.1. IMPLEMENTATION

The Finance & Procurement Department shall have the overall responsibility for implementation of this manual. The manual is to be reviewed by management committee prior to approval by Board of trustees for implementation. The policies contained in this manual are to be followed by the Department and other relevant officials involved in the Finance & Procurement Department.

4.2. MAINTENANCE AND UPDATING

The basic responsibility for maintenance and updating of this manual resides with the Finance & Procurement Department. The review and updating of this manual shall be a continuous process to ensure smooth, effective and efficient running of the Finance & Procurement Department.

The Finance & Procurement Department shall initiate, the management committee shall validate and the Board of trustee shall approve any modifications to this manual.

The Finance & Procurement Department shall be authorized to allow approval of any proposed changes in this manual and their implementation only in cases where the changes do not require any material amendments to the Finance & Procurement Department's strategy and are required to be affected promptly. However, any such changes shall be subject to subsequent ratification by the Board of trustees.

The Finance & Procurement Manager should periodically review the Finance & Procurement Department policies. As a policy, this manual, in its entirety, shall be reviewed at least annually and last review shall be updated, if required.

5. TRANSACTIONS HANDLING FUNCTION

5.1. BASIC ACCOUNTING CONCEPTS

Following are some of the most important accounting concepts that must be used in the recording of transaction and then the preparation of financial statements:

5.1.1. ACCOUNTING POLICIES

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

5.1.2. MATCHING CONCEPT

This concept is based on the assumption that costs should be expensed and matched against revenue in the period in which revenue is recognized.

5.1.3. RECOGNITION CONCEPT

This concept is based on the assumption that revenue is generally recognized when the earning process is virtually complete and an exchange transaction has occurred.

5.1.4. GOING CONCERN CONCEPT

This concept is based on the assumption that the entity would be able to continue its business operations for the foreseeable future.

5.1.5. MATERIALITY CONCEPT

This concept is based on the assumption that an item is material if its inclusion or omission would influence or change the judgment of a reasonable person.

5.1.6. COST/BENEFIT CONCEPT

This concept is based on the assumption that the costs of providing information must be weighed against the benefits that can be derived from using that information.

5.1.7. PRUDENCE CONCEPT

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

5.1.8. ACCRUAL CONCEPT

Accrual concept states that the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

5.1.9. FUNCTIONAL CURRENCY

Functional currency is the currency of the primary economic environment in which the entity operates, that is, the currency of the environment in which an entity primarily generates and expends cash.

Functional Currency of the Company is "Pak Rupee". It means every amount taken into account shall be in Pak Rupees.

5.2. GENERAL LEDGER AND VOUCHERS

The objective of general ledger (GL) is to link all the components of financial statements in a system to facilitate generation of Balance Sheet and Profit and Loss account of the Organization.

The General Ledger System ensures timely generation of financial statements and management reports for decision-making.

The entries will automatically update the GL that will become a base for the Trial Balance and financial statements. Following voucher types will be used:

TYPE OF VOUCHERS	PURPOSE
Bank Payment Voucher (BPV)	**This is used to record payment through any bank account using cheques or direct credit to the accounts of supplier/beneficiary maintained with other bank.**
Bank Receipt Voucher (BRV)	**This is used to record the receipt of funds in bank accounts.**
Journal Voucher (JV)	**This voucher is used to record the transactions not directly involving payment or receipt of funds/ cash e.g.: inter- branch, adjustment of advances, correction/ classification of entries, recording of accruals etc.**
Cash Receipt Voucher (CR)	**This is used to record the receipt of cash in petty cash-It is strongly discouraged to use this option, preferably cash should be deposited in bank account or with business branches.**
Cash Payment Voucher (CP)	**This is used to record payments through petty cash.**

The above voucher types will be used.

The responsibility for the preparation, review and supervision of the vouchers should be segregated keeping in view the size of office and available staff.

The following policies should be followed for voucher preparation, recording and approval:

- All vouchers should be in serial numbers;
- All vouchers should be prepared by Finance and Procurement Officer;
- All vouchers must be approved by the Finance and Procurement Manager alongwith Director Operations;
- All vouchers should be filed separately on a daily basis;
- Finance & Procurement Manager will ensure that all Journal Vouchers passed are entered correctly in the GL;
- Trial balance is generated by the system on monthly basis
- All journal vouchers passed during the month should be stored in the record room at the end of each year;
- All accounts required to be closed should be closed only after the approval of the Finance & Procurement Manager.

5.3. Set of Financial Statements

A complete set of financial statements comprises the following:

- Balance sheet;
- Income statement;
- Cash flow statement; and
- Accounting policies and explanatory notes.

5.4. Preparation of Financial Statements

The financial statements shall be prepared in accordance with the following regulations:

- International Financial Reporting Standards as applicable in Pakistan;
- Society Act; and
- Circulars/directives issued for the SSDO reporting.

6. PERFORM CLOSING

The purpose of this process is to define the tasks necessary to support the period-end financial close and consolidation process including the preparation of the financial statements required for internal management reporting and external reporting.

6.1. Close Schedule

All field offices and Divisions perform hard close for all periods.

- Closing activity will be conducted at the last day of the month, and the field offices should adjust their outstanding advances by the 5th of the last month;
- There should be a single overall online calendar and the Finance & Procurement Department ensures the monthly close across the organization.
- Accounts period of the SSDO shall closes at the last day of each month and accounts shall be closed accordingly.

7. PETTY CASH

7.1. Introduction

In order to decrease the administrative costs and to expedite the process of handling minor purchases, a Division may be authorized to operate a Petty Cash Fund. These funds should be used for non-capital expenditures where it is expedient and efficient to pay cash and where the cost is less than the authorized limit. Where there is need for a fund, a written request giving the reason must be submitted to Finance & Procurement Manager for approval. Maintaining a minimal fund reduces security risk.

Receipts and cash on hand must always total the amount of the initial petty cash advance. Revenues, expense recoveries and other cash receipts should not be combined with the petty cash fund. Such amounts must be promptly deposited in the "SSDO"'s designated accounts.

Finance & Procurement Department shall be overall responsible for the receipt and payment related function of the "SSDO".

7.2. Custodian’s Responsibilities

The custodian, Finance & Procurement Officer, is responsible for control of petty cash fund, together with the supporting documentation. Specifically the custodian is responsible for the following:

- Safekeeping of petty cash funds. The fund (including cash, receipts and vouchers) must be kept secured in a locked box, cash drawer or safe. Only the custodian is to have access to and disburse petty cash. Handling of petty cash should only take place in secure locations.
- Issue of petty cash advance against the approved petty cash requisition form.
- Receive adjustment vouchers along with the supporting documents.
- Maintain a record of petty cash expenses. To minimize the risk of fraud and provide evidence of the missing amounts in the event of loss of funds, this record of expenses is to be stored separately from the petty cash funds and in a secure location (i.e. locked desk or filing cabinet).
- Report cash shortages or excess cash immediately to the management committee.
- Return the petty cash fund (money, receipts and petty cash vouchers) upon termination of employment or transfer to another position.
- The petty cash adjustment voucher is to be signed and authorized by the Finance & Procurement Manager.

7.3. Petty Cash Administration

The Finance & Procurement Manager is responsible to count the petty cash fund monthly to ensure the custodian has the correct total of petty cash and adjustment vouchers. A record of these counts must be kept in file.

Approval of the Finance & Procurement Manager is required to establish, close, change the amount of, or replenish a petty cash fund.

7.4. Petty Cash Adjustment Vouchers

The Petty cash adjustment vouchers must be numbered and be prepared manually. These vouchers shall be signed by Cash Officer/Account and shall be reviewed by Finance & Procurement Manager. These vouchers shall be used for entry in the general ledger.

7.5. Petty Cash Limits

The Finance & Procurement Department shall maintain a petty cash balance of Rs. 20,000 at Head Office.

The administration division will maintain a petty cash balance for their day-to-day operations. The cash limit shall be equal to Rs. 20,000 and shall be maintained on floating basis. All float holders shall report expenses incurred to the Finance & Procurement Department on utilization of the balances and shall provide Finance & Procurement Department with all the approved bills for which the payments were made during the week. The heads of the respective divisions shall approve the vouchers and the statement.

8. RECONCILIATION FUNCTION

8.1. Introduction

The reconciliation process is very essential to maintain the updated reconciled balances with the third parties. The reconciliations must be done in an independent and objective manner. The purpose of preparing the reconciliations is to provide a control for effective and timely matching of items, and follow up on reconciled items.

It shall also be ensured that the employees with the ability to make payments, recording/making the financial entries, hold cheques books or payment approval authorities must not be involved in the reconciliation process.

Bank statements should be received monthly from all banks. It shall be ensured that the opening balance of all the bank statements received must be checked so that agrees with the closing balance of the last statement received.

The reconciliations are prepared in order to ensure the completeness of records, timely recording of transactions and the appropriateness of the transaction recorded.

Following reconciliations will be prepared at Head Office:

- Reconciliation between Head Office and balances with bank

9. FIXED ASSETS ACCOUNTING FUNCTION

9.1. Introduction

Fixed assets accounting ensures proper recording of all the capitalized assets of the SSDO and ensures their physical safeguarding and authorized access, with adequate insurance of the asset. Fixed Asset amounting to Rs. 15,000/- shall be capitalized in books of accounts.

Fixed Assets accounting will ensure:

- All fixed assets of the SSDO are recorded in the books of the organization.
- All fixed assets of the SSDO are valued correctly
- Depreciation is charged correctly as per SSDO policy on all fixed assets.
- All fixed assets of the SSDO are insured against all known risks.
- All fixed assets of the SSDO are legally and physically in the possession of the Company.
- Custodians are identified for all the fixed assets of the SSDO.
- All fixed assets of the organization are presented in the financial statements of the SSDO as per applicable disclosure requirements.
- Finance & Procurement Department shall be responsible for recording of fixed assets and the HR & Administration Department of the Operations Division shall be responsible for the acquisition, disposal and maintenance of the fixed assets.

9.2. General Policies

- Controls over the recording of fixed assets shall be maintained to ensure:
  - Accuracy of the records
  - Safeguarding of assets
  - Improper disposal is avoided
- Single fixed assets system should be used across the organization.
- Common policies and procedures for fixed assets across the SSDO-Standard capitalization policy including standard useful life, depreciation methods, etc.
- Automate transactions shall be made across the SSDO to minimize manual journal entries and support the overall month end close initiative.
- Fixed assets ledger shall be integrated with financial accounting for summary level acquisition, depreciation, amortization, improvements and disposition data.
- Periodic reconciliation of the underlying record of fixed assets with the accounting records (general ledger) should be made.
- Reconciliation of the periodic physical inventory of fixed assets with the fixed assets records should be made.
- Owned fixed assets including all additions will be recorded on an amount equal to the cost or the revalued amount less accumulated depreciation and impairment losses, if any.

- Normal repairs and maintenance will be charged to expenses, as and when incurred. Major renewals and improvements will be capitalized as per the capitalization policy.
- The HR & Administration Department of the Operations Division shall maintain close coordination with the Finance & Procurement Department to ensure that information regarding the fixed assets, their additions and their disposals are timely transmitted to the Finance & Procurement Department.

9.3. Recording of Fixed Assets

- Fully depreciated assets shall be recorded in the books of accounts at a nominal value of Rs. 1.
- No purchase of fixed asset would be done without obtaining quotations.
- No purchase or disposal of fixed asset would be made without the prior approval of the management committee.
- All assets acquired under finance lease arrangements with the transfer of ownership clause at the end of the lease term, would be held till the maturity of the lease after which ownership of the asset would be transferred to the entity as per the lease agreement.
- On the basis of information from the HR & Administration Department, the Finance & Finance and Procurement Officer shall prepare a voucher to record the addition or disposal of the fixed asset for entry in the general ledger. This voucher shall be reviewed and approved by the Finance & Procurement Manager before entry in the general ledger.

9.4. Capitalization of Fixed Assets

- An asset shall be capitalized only,
  - If the asset has a useful life of more than one year.
  - The expected benefits from the asset are to be obtained for a period of more than one year.
- The total cost of fixed assets includes the purchase price, freight/shipping insurance, sale/use/transfer taxes, import duties and installation costs.
- Any item costing less than RS. 15,000 shall be charged off directly to the expenditure account. However items like calculators and mobiles shall be kept in record for control purpose but shall be charged to expenses.

9.5. De-recognition

- The carrying amount of an item of fixed asset shall be derecognized:
  - On disposal; or
  - When no future economic benefits are expected from its use or disposal.
- The gain or losses arising from de-recognition of an item of fixed asset shall be included in profit or loss account when the item is derecognized.

- The gain or loss arising from the derecognizing of an item of fixed asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

9.6. Revaluation of Fixed Assets

Revaluation of fixed assets shall be recommended by the management committee and approved by the Board of Directors. The effect of revaluation shall be recorded by the Finance & Procurement Department in the financial statements to arrive at the fair value of assets. The amortization of revaluation surplus should be made as per applicable requirement.

9.7. Depreciation and impairment Charge

- Depreciation will be charged based on the useful life of the asset. The depreciation policy used and the estimated useful life of the assets shall be reviewed periodically and, if there is any significant change in the expected pattern of economic benefits from those assets or revision in the estimated useful life of the asset then the depreciation rate shall be changed accordingly and accounted for as a change in estimates.
- The useful life of the assets should be reviewed at the end of each year; if the carrying amount of an asset exceeds its recoverable amount then the impairment loss should be recognized in the profit and loss account.
- Depreciation shall be provided on assets acquired during the year from the month in which these assets are purchased till the month these assets are disposed-off.
- The depreciation charge for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset.
- The Finance & Finance and Procurement Officer shall be responsible for the calculation of the depreciation charge and for the preparation of the depreciation voucher. The depreciation voucher shall be reviewed and approved by the Finance & Procurement Manager before entry in the general ledger.
- Depreciation on leased assets would be charged on the useful life of the asset and not over the lease term.
- No depreciation shall be charged on assets purchased which are still to be brought into use or which are under construction. Such assets will be treated as capital work in progress.
- Rates of depreciation to be charged to the respective fixed assets, depends on their future utilization and the management's estimates regarding them, whereas the following estimates are used for the major categories of fixed assets;

Non-Current Asset	***Depreciation Rate (%)***
Building	*10*
Furniture & Fixture	*20*

Computers	*33.33*
Vehicles	*20*
Equipments	*20*

9.8. Transfer of Fixed Assets

- For inter-unit transfers, the management committee and Department Heads of both the transferor and transferee units shall authorize the transfer of the fixed assets.
- Controls over the transfer of assets shall be maintained not only to preserve the accuracy of the records but also to ensure that assets are safeguarded.
- A fixed asset transfer note shall be prepared by the transferring unit, copies of which shall be sent to the transferee unit, administration division and the Finance & Procurement Department. All the transfers shall be timely recorded by the Finance & Procurement Department and accordingly the fixed assets register shall be updated.

9.9. Physical Verification and Tagging

- All fixed assets which are physically present shall be tagged and listed. For this purpose fixed asset register shall be maintained. This exercise shall be carried out on an annual basis to ensure that no asset remains unrecorded.
- All assets shall be identified upon their receipt by the use of a pre-numbered tag. The tag shall be permanently affixed in a readily visible area on the asset. The number on the tag shall be recorded in the detailed fixed asset ledger. The location of the asset installation shall also be recorded in the fixed asset register.
- The register shall be kept updated at all times and shall be sequentially numbered. The register shall be kept in the safe custody and no unauthorized access shall be allowed.

9.10. Fixed Assets Records

- Adequate itemized record of fixed assets should be maintained which at minimum must indicate the following particulars:
  - Detailed description of each item
  - Original cost of the item
  - Date of its acquisition
  - Classification of the item
  - The location and/ or the custodian of the item
  - The rate of depreciation
  - Accumulated depreciation
  - Depreciation charge for the period
  - The Division / cost centre to which the depreciation is charged
  - Date of revaluation (if any)
  - Revalued amount (if any) of the item
  - Depreciation on revalued amount
  - Accumulated depreciation on the revalued amount

9.11. Intangible Assets

Intangibles will be stated at cost less accumulated amortization and impairment loss, if any. Amortization will be calculated using the straight line method. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use.