



FINANCE

POLICIES AND PROCEDURES

Version 2- December,2025



HEALTH, EDUCATION AND DEVELOPMENT SOCIETY "HEADS"

Abstract:

This Finance Policy defines the financial management framework of the Health, Education and Development Society (HEADS) to ensure transparency, accountability, and effective use of resources. It outlines key principles and procedures for budgeting, accounting, internal controls, and financial reporting in compliance with legal, donor, and organizational requirements. This policy guides staff and management in maintaining sound financial governance and stewardship of funds and was last updated in December 2025.

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Aronyms

HEADS Health Education and Development Society

GB	Governing Body
BOD	Board of Director
MC	Management Committee
EB	Executive Body
AC	Audit Committee
BAC	Budget and Accounts Committee
PC	Procurement Committee
CE	Chief Executive
ED	Executive Director
PM	Program Manager
FO	Finance Officer
AFO	Assistant Finance Officer
PM	Project Manager
JV	Journal Voucher
PCF	Petty Cash Fund Form
CAF	Cash Advance Form
CPV	Cash Payment Voucher



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BPV	Bank Payment Voucher
BRV	Bank Receipt Voucher
CRV	Cash Receipt Voucher
GRN	Good Receiving Notes
SIV	Store Issue Voucher
BRS	Bank Reconciliation Statement
CARF	Cash Advance Request Form





Health Education and Development Society

Section 1

Introduction

1.1 About HEADS

Health Education Development Society (HEADS) is a Non-Governmental, Non-Profitable Organization registered under Societies Act 1860 (Reg. No. 8758/5/7411) and subsequently licensed by the Securities and Exchange Commission of Pakistan (SECP) under License No. 0313846. The organization since its establishment in 2013, works "To provide a peaceful environment to all human beings where they can utilize their potentials for sustainable development". This aim is achieved with the close collaboration of partner communities, humanitarian and development organizations through a participatory, demand responsive, gender and poverty sensitive integrated development approach in the Khyber Paktunkhwa Province & FATA, Pakistan. HEADS interventions mainly focus on achievements in domains/program areas including Protection, Livelihood, WASH, Education, Health & Nutrition and DRR.

1.2 Purpose of the Manual

The purposes of this manual are to: -

- 1 Explain the HEADS overall financial processes in broad terms and the reasons for those processes;
- 2 Provide direction to the various departments and field offices such that detailed interdepartmental/field offices financial policies and procedures can be developed from a common and consistent base;
- 3 Provide common financial policies that must be adhered to by all departments and field offices. The manual gives the reader a basic understanding of financial management in the HEADS and, most importantly, an understanding of the purpose behind a particular financial policy.





1.3 Objectives of the Manual

There are three objectives inherent in the establishment of Finance & Accounts policy Manual:

Accountability: To ensure that responsibility for every commitment of funds is assigned to a responsible individual, that there is an audit trail of transactions to document that responsibility and ensure accurate reporting of the transaction.

Control: To ensure that every financial transaction is for a purpose specified by the legislature, is carried out, in its essential elements, in a manner that is consistent throughout the HEADS and reflects proper financial procedures to ensure that proper authorities authorize and check the various stages of the transaction.

Efficiency: To ensure that funds are spent in a manner that maximizes the value received by the HEADS for that expenditure.

1.4 General Policy Outline

A good financial/accounting system makes it possible for an organization to be financially accountable to all its important stakeholders. It must provide information, which is relevant, understandable, reliable, complete, up-to-date, consistent and acceptable to the external users. Linked to proper system for monitoring and evaluating the work of an organization, a good financial management system makes it possible for the organization to be accountable, for what, when, where the money is spent and how cost-effective it is.

This Financial/Accounting Policies and Procedures Manual are therefore Intended to help Health Education and Development Society (HEADS) to:

Define clearly its financial and accounting procedures;

Ascertain that transactions of the Organization are recorded in accordance with generally Accepted Accounting Principles;

Put in place a system that will provide adequate internal control over the resources of the organization so as to enhance the efficiency of the overall management of its operations; and



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Create a system that will enable HEADS meet effectively the reporting requirement to management, board of directors, donors, government counterparts and the public at large.

This manual is organized in eleven sections after the introduction section, (A). Section one deals with the Accounting Rules and Policies adopted by HEADS that should be adhered to while dealing the bank operations are presented in section two. The third section deal with Cash Operations, while section four discusses Accounts Receivable.

Liabilities, Payroll and Budgeting are covered in sections five, six and seven. In the eighth, ninth and tenth sections; the manual discusses Revenues, Expenditures and Fund Balance, while Financial Reports and Audit are presented in the last section.

Samples of various preform as discussed in the manual are also attached as Annexures at the end of Manual.





Section 2

FINANCIAL AND ACCOUNTING RULES /POLICY

2.1 Accounting Principles

Accounting principles are a number of basic rules, which are developed over-time from fundamental logical set of assumptions, concepts, and conventions. These rules are referred to as Generally Accepted Accounting Principles (GAAP) and are to be applied to all accounting and financial activities.

A transaction is for HEADS an entry in the accounting system. It carries a voucher slip and attached documentation such as receipts or other.

A transaction cannot be deleted when first entered. Any wrong postings must be corrected with a new transaction (with the same description with reference to the corrected transaction number and explaining text).

Financial transactions of the Organization are being recorded on the accounting software. All the transactions are supported by appropriate voucher along with supporting documents. Appropriate voucher means:

Bank Payment Voucher	(Annexure-1)
Cash Payment Voucher	(Annexure-2)
Bank Receipt Voucher	(Annexure-3)
Cash Receipt Voucher	(Annexure-4)
Journal Voucher etc	(Annexure-5)





2.2 Receipts/Collections

HEADS's official serially sequenced and pre-numbered cash receipt voucher shall acknowledge all cash or cheque receipts.

Receipts from donors in cash or in kind are converted to Pak Rupees at the rate of exchange prevailing at the time of receipt.

Income is recognized when materials and/or cash grants are received from donors or others.

Expenditures are recognized when incurred.

All collections made whether in cash or in cheque shall be deposited to a bank account intact on the date of collection or on the following day.

The making of payment or advances out of cash collection is specifically prohibited.

Cashiers shall never keep third party funds in the Organization's safes. If found so, the fund shall be delivered to the Organization against official receipt.

2.3 Payments

All payments have to be effected against a pre-numbered serially sequenced Payment Vouchers.

All payments above Rs. 15,000 shall be made by cheque. When the amount of payment request is up to Rs. 15,000 payments will be effected from the petty cash fund.

No expenditure is to be effected unless properly approved or is an integral part of the procedure that specifically excludes written approval. Regardless of the Circumstances, all expenditures records must be supported with proper evidence to prove that a legitimate transaction has taken place. Only original documents are accepted for payments.

Blank check should never be signed and left at the disposal of others.

Bank reconciliation should be made at the end of each month by the accountant.

All payments should come directly and/or pass through the Finance Section, thereby enabling the unit to prepare the necessary payments in accordance with the policies of the Organization.





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Payments of vendor/Supplier should be cleared /paid within 30 days on a receipt of invoices by Finance section.

2.4 Petty Cash Fund

The withdraw limit of HEADS's petty cash is Rs. 50,000/-. However, the limit may be changed when decided by CE/HEADS's Management or donor's funded amount accordingly.

The established amounts shall not exceed unless authorized by the Chief Executive of HEADS. The Funds shall be replenished when at least 75% of the limit is utilized.

Petty cash should be kept by Finance Officer (FO)/ Finance Assistant (FA) or Admin Officer (AO)/ Admin Assistant (AA). The FO / FA / AO /AA is fully responsible for her/his holdings.

2.5 Receivable/Advances

Receivables that cannot be collected are called bad debts. Provisions for doubtful debts are made on specific basis.

Receivables not collected by their due dates shall be forwarded to court action for collection through the due process of the law.

All travel advances should be accounted for within two days after arrival of the traveler.

No advance may be issued to an employee unless and until all existing advances are settled.

2.6 Liabilities/Advances

No invoice should be considered for payment or entry unless it is accompanied by Goods Receiving Note and other relevant supporting documents.

Provision for workers' compensation is determined and provided for at the end of each year based on actual period of service of each employee.





2.7 Inventory and Fixed Assets

All receipts and issues of stock and fixed assets should be evidenced by pre-numbered Goods Receiving Note (GRN) and Store Issue Voucher (SIV) respectively.

All inventory materials purchased for HEADS should be expensed upon purchase.

Any item, not material part of a whole, which costs Rs.3000.00 and above and which lasts for more than a year is considered as fixed asset. However, all furniture costing Rs.1000/- and above are considered as fixed assets.

Fixed assets acquired during a year are already charged to expenditure account. However, Fixed Asset Register must be maintained for control purposes.

All stock items and fixed assets should be counted at least at the end of the fiscal year.

The income from asset sales should be credited to the relevant cost account. This is related to the fact that fixed assets are charged to profit and loss at the time of procurement. The income should benefit a project related to the donor who sponsored the purchase in the first place. Note that some donors (i.e. ECHO) have specific rules for procurement and accounting of assets. HEADS encourages to spend this income for activities related to beneficiaries, or related expenditures (example: vehicle maintenance in case of vehicle sales), if there are no specific rules given by the donor.

2.8 The Accounting Cycle

The accounting cycle is the procedural sequence of accounting activities which starts with the recording of transactions and ends with the preparation of financial statements and the post-closing trial balance.





The complete series of activities involved in double entry accounting during a fiscal period is called the accounting cycle. The following are the sequence of activities involved in the cycle:

Journalizing opening trial balance journal voucher

Coding, analysis and summarization or records of source documents such as receipt vouchers, invoices, cheques, payment vouchers (PV), cash register, slips, etc.

- Posting of sorted and summarized journal entries into ledger accounts.
- Closing trial balance taking to test the balancing of the ledgers.
- Trial balance adjusting entries and their journalizations.
- Post-closing trial balance taking.
- Revenue and expense summary statement.
- Balance sheet.

2.9 Budget

HEADS will have one consolidated annual budget. In addition to the consolidated budget, individual agreements with donor will be treated as a budget for the project period.

2.10 Fiscal Year

The fiscal year of HEADS is July 1 to June 30.

Books of accounts will be closed at the end of the fiscal year. Adjusting entries must be passed for mistakes that need to be corrected and prepayments (if any) at the end of an accounting period before closing the accounts.

An accounting period in HEADS is a month. This means that there are 12 normal accounting periods, starting with 01 and ending with 12. All ordinary transactions in accounts must be booked to one of these accounting periods.

2.11 Financial Reports

The principal financial reports include: the income and expenditure statement, the balance sheet, budget report, donor reports etc.

Interim financial reports shall be reported at the end of each quarter.





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Draft financial reports for the year should be prepared within three months after the close of the financial year.

2.12 Audit

Annual Audit: HEADS's books of account shall be examined annually by external auditor to be appointed by BOD.

Internal Audit: HEADS Head Office and project accounts shall be examined by internal auditor on month wise / project wise basis. Internal Auditor shall be appointed by CE through Procurement Committee.

Appointment of Auditor: The Appointment of the auditor will be for a term of five years. Upon completion of this period, the Board of Director will evaluate the performance and suitability of the current auditor and decide whether to reappoint the same auditor or appoint a new one for the subsequent five-year term.

2.13 Authorization Limit

All payment shall be authorized as per Authorized Table given at Annexure-15. Cheques will however be signed as per Cheque Signing Authority given at Annexure-6.

2.14 Document Maintenance, Preservation and Disposal

All used financial documents should be kept under the custodianship of the Finance Section.

All unused accountable documents of HEADS will be registered in their sequential order in a register book and should always be kept under custody.

Issuance of unused documents will be made upon confirmation that the previously issued one has been properly and fully utilized. Annual inventory of unused accountable documents shall be taken at the end of each fiscal year.

The books of accounts and the corresponding vouchers and other documents will be kept by HEADS for five years after they have been audited.

After five years, all documents will be disposed under the supervision of head of Finance Section.





2.15 Project Basics

Definition of a project

In HEADS, a project is defined as an individual money grant from a given donor. This means that when an activity is being funded from a variety of sources, each of these sources must be defined as separate projects. The reason for this is to facilitate reporting requirements towards each donor.

Project Period

Each project is set in a certain timeframe, called the project period. All project activity and related costs have to occur within this period. Project periods should, if possible, be kept within one financial year (1st of July – 30th June), and identical project periods for as many projects as possible should be sought. This simplifies accounting and administration and enables coordination of reporting and audit work.

Project codes

A HEADS project will have a code of three letters plus four numbers, Area and donor name.

Ex: PKE-1701-KP-DAI/USAID. The meaning of the code can be derived as described on next page:

Part	Function
First two letters	Country code and Province / FATA code indicating in which country and province / FATA the project activity takes place.
Third letter	Activity code. See table below for program activities.
First two numbers	The starting year of the project. If the project started in 2017, these figures will be 17, if it started in 2018, they will be 18.



Last two numbers	Number of project at for the year with the Donor e.g. for first project with the same donor, the number will be 01 while that for the second project with the same donor will be 02.
Fourth & Fifth letter	Area Name in Abbreviation e.g. KP for Khyber Pakhtunkhwa while KA for Khyber Agency.
Donner Code	Like USAID, DAI, UNHCR, ERF, SIDA, PHPF etc.

HEADS projects are allowed the following codes:

Code	Meaning
F	Food Security and Livelihood
W	WASH
L	Legal Aid Programs/ Protection
H	Health
S	Shelter
E	Education
Y	Other activities

2.16 Back-up and Disaster Recovery Policy and Procedures

The backup of the accounting system will follow the following practice:

Daily backup on servers or individual systems with the last seven days of backup indexed as separate files, one for each working day.

Weekly backup on an External Hard Disk or external storage media like CDs or DVDs for the last four weeks indexed as four files, one for each week.

Post audit year-end data backup to be placed on the server/individual systems, External hard disk, and on another storage media.






Section 3

BANK OPERATIONS

3.1 Opening an Account

When there is a need for opening of a Bank Account for HEADS HO or projects, the meeting of BOD shall be called for to give approval for opening of new account on the recommendation of Budget and Account Committee. The Management applies to a bank to open an account or accounts. He /She informs the bank of the manner in which the account/accounts are going to be operated and the title of the account as well as the names of the signatories. Signatories shall submit their specimen signatures with the bank.

Once the account has been opened, normal operation takes place as follows:

When accounts are opened, cheque books are prepared by the bank and issued to the customer.

Upon receipt of the cheque book, verify immediately that it contains exactly the number of cheque leaves you ordered. Any missing leaves must be reported immediately quoting the number and asking for a "stop payment"

Keep in safe custody and the serial numbers recorded in a register of unused cheque books in the following format to be maintained by the Finance Section.

Date	Cheque Issued			Signature	Date used	Signature
	No.	Date From	To	(For Receipt)	Stub Returned	(For Return)
Received from Bank						





3.2 Deposits

Deposits can take the form of cash or cheque, drafts, telegraphic or mail transfers as appropriate. Any receipts in the form of cheque for deposits will have the availability of funds ascertained first before they are considered good funds, especially if they emanate from private individuals.

For all types of deposits, receipts should be obtained from the bank. Normally, banks issue two types of deposit receipts, for cash and cheque. In both cases before deposits are made, the Finance Officer lists out the item on the blank deposits /forms in duplicate, checks the items and totals carefully, counts the cash to be deposited and takes it to the bank. After having deposited the money, the Finance officer obtains deposit slip bearing a stamp of the bank and a signature of the teller.

Upon receiving the deposit slip accounts pass the following entry.

Dr. Bank

Cr. Cash or

Cr. Other appropriate account

3.3 Cheque Payments

Cheque payments are orders to a bank to make cash payments or through Payee's account (In case of cross cheque) to the person or organization named in the cheque from bank current accounts held by the maker. Cheque payment helps to avoid the risk of carrying large amount of cash.

All payments above Rs. 15,000 must be paid by cheque or through bank transfer. For exemption in unavoidable situations, CE approval must be sought for on and exemption memo **[Annexure-22]** clearly stating the reasons for such exemption. Before cheques are issued for payment, Bank Payment Voucher **[Annexure-1]** must be prepared and must be authorized by the Chief Executive.

Bank Payment voucher must be supported by appropriate documents such as supplier's invoices, receipts, and good receiving note that should be attached to them. Where such supporting documents are already attached to another accounting document, such as journal voucher, it may be sufficient to refer to such journal voucher on the cheque payment voucher.





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Cheque numbers must be entered on the relevant Bank Payment Vouchers and the Bank Payment Voucher number must also be entered in the cheque book. Ensure also that cheque numbers are used in sequential order. Canceled cheques must be kept attached to the cheque Book.

No expenditure is to be effected unless properly approved. Only original documents are accepted for payment.

All supporting documents must be stamped "PAID". If an error is committed during the preparation of a cheque a "VOID" mark should be put on the face of the cheque and should be attached with the cheque stub.

If bounced cheques are not cashed immediately, they must be returned and reversal journal entries be passed.

To minimize the risk of abuses, a cheque should be signed by two signatories. The CE shall sign cheques with the head of Finance Section / Chairperson Board and/or other staff to be appointed by the CE. Cheques made payable to a nominated signatory shall not be signed by him or her. The authority to sign cheques is illustrated in Annex-6). Cheque preparation, collections, and disbursement duties must be free from signatories. Blank cheques should never be signed and left at the disposal of others.

The name of the payee, amount paid, date and running bank balances should be stated on the stub. Acknowledgment of Cheques from Payees may be obtained on 'Cheques Receiving Acknowledgment' Annex-18).

Before Bank Payment Voucher is prepared, Payment Request should be prepared Annex-7 or Annex-10). The payment request form shows the amount requested and the reason for payment. It could be printed or stenciled. It is prepared in two copies. The original goes to accounts while the copy is retained by the requesting unit.

Accounting Entries:

Dr. Appropriate account

Cr. Bank

3.4 Bank Transfer:

Normally banks act on authority given to them to debit a particular account and effect cash transfer to third parties. Such authorities can assume the form of



letters. In such cases, the letter has to be signed by the persons authorized to operate the account. If an authority to debit is given to the bank and the bank act on it, the debit note should come from the bank. Afterward payment out of the bank account will be made as explained in Para-2.3. Further, withholding tax and Bank Charges are deducted by the Bank directly from the account without recourse to the account holder. The same are indicated in the monthly bank statement.

A journal entry should be passed in the books by accounts. Journal Voucher (JV) is used to record all transactions that are not posted to the ledger account through other vouchers (Annex-5). Copy of the transfer letter and the debit note received from the bank are attached to the JV.

Dr. Appropriate accounts

Cr. Bank.

3.5 Bank Reconciliation

A Bank Reconciliation Statement is a statement prepared to reconcile the difference between the bank statement ending balance and the NGO's records (Annex-8). Banks provide statements to their customers usually once a month. Upon receipt of the bank statement, the balance shown may not agree with the balance in the books. To avoid fraud and quickly detect errors, bank reconciliation is necessary, at the end of each month. Reconciliation statements must be prepared by the responsible FO/AFO manually or through system software.

Debit advices are not issued by the bank for cost of cheque book; therefore, they should be journalized from the bank statement so that they can be carried forward as reconciling items in the bank reconciliation statement.

Duplicates or photocopies of missing documents should be obtained from the bank and all outstanding items should be followed up and be closed as quickly as possible.

3.6 Internal Control

On Cheque payment

Opening of bank accounts, appointment and change of cheque





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signatories and closing of bank accounts should be authorized and communicated to the concerned banks immediately by the CE.

Prior to the preparation of payment vouchers, the validity of attachments of supporting documents should be properly compared with vendors' invoices, Goods Received Notes, etc

Cheque payments should be made from properly budgeted amounts.

The payment vouchers and supporting documents should be canceled with a "Paid" stamp to avoid double payment.

If there occur a change in the signatories of bank accounts, the bank should be notified immediately about the changes and effective date of the changes.

Signatories shall not be from those employees who are responsible for the preparation of Bank payment voucher, collections and disbursement.

Each cheque should be signed by at least two authorized signatories.

Avoid signing blank cheques.

On bank reconciliation

Check the date, number and amount showed on every cheque stub agrees with the corresponding date on the bank statement and note the difference, if any, and that voided cheques are not cashed.

Check all deposits are included in the month's Bank Statement.

Ensure that bank statements and reconciliation reports are properly filed for future references.

All cancelled (voided) cheques should remain attached to the cheque stub.

When collecting cheque books, the person in charge should check that all the cheques are in place and in sequence.

All cheques must be fully accounted for.





Section 4

CASH OPERATIONS

4.1 Definition

Cash is a medium of exchange for goods and services. It consists of coins, notes, cheques on hand as well as cash on deposit with bank. It is the most liquid of all assets and hence it changes hands, places and vanishes into commodities within the quickest time possible. Hence, it requires the most efficient system of recording and controlling.

4.2 Petty Cash

Petty cash is a fund used to meet various expenses of recurring or non-recurring nature of small and moderate accounts. Petty cash should be kept on the impress system whereby the cashier is advanced a float of a fixed amount, which should be replenished from time to time. The amount of the Petty cash float should be reasonable in relation to requirements. The petty cash float of HEADS is Rs. 50,000. The float could be increased upon decision by the management based on specific situations. Payments upto Rs. 15,000 may be paid from petty cash.

Petty cash fund should be kept separate from other funds (cash received or collected). Petty Cash fund should be maintained on Petty Cash Book (See Annex-19). The petty cashier should not have access to the accounting records or cheque books.

4.2.1 Setting up the Fund

After the amount has been determined prepare a cheque in the name of the cashier, get the cheque signed by authorized people and hand over to the AO/FO who will cash the Cheque and keeps cash in safe.

Account entries:

Dr. Petty cash fund account

Cr. Bank account

4.2.2 Operations





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Payment Request Forms are presented with the supporting document to the CE or to the delegate for approval. The approved payment requests are forwarded to Finance Section wherein documentation is checked for corrections and if in order passes to the cashier.

Finance Officer, prepare payments in Petty Cash Payment Voucher and gets the signature of authorized person. **(Annex-9)**.

Make the payee sign for the money she/he takes or attach the relevant invoice to the voucher.

All supporting documents must be stamped "PAID" before they are replenished.

4.2.3 Replenishment

Petty cash is replenished before it is completely exhausted or when the petty cash on hand falls to about $\frac{3}{4}$ th of the originally set up fund.

Cashier detaches the original of 'PAID' payment vouchers together with the supporting documents and sends to accounts.

Upon receipt of the completed Petty Cash Replenishment Report **(Annex-10)**, accounts check and analyzes voucher, by account, title code, and total.

Replenish by preparing cheque payment voucher and cheque in the name of the cashier for the amount expended.

All paid vouchers must be referenced to the Cash Payment Voucher number.

The Petty Cash Payment Vouchers should be marked "REPLENISHED" with a stamp and filed as support for the replenishment check.

The petty cash fund should always remain at a constant level.

Accounting Entries:

Dr. Appropriate account

Cr. Bank





4.3 Cash Receipts

Source of cash receipts, could be donations/grants, or from miscellaneous income. Cash received, must be evidenced by Cash Receipt **(Annex-11)** prepared by AFO in three copies. Receipts are printed upon written request by the head of the Finance Section.

Whenever possible, cash must be deposited to the bank intact daily, the making of any payment or advance out of cash received being expressly forbidden. The AFO / FA should number deposit slips sequentially for each

fiscal year at the time of preparation. Cheques received must be in the name of the organization.

Upon receiving of the Receipt and the supporting documents, Finance Section checks accuracy of analysis and pass the following entry:

Dr. Cash/Bank

Cr. Account receivable or

Cr. Income or

Cr. Appropriate account

All unused cash receipts must be kept in safe custody in the stores, and the required number of pads is given to the AO/FO/FA upon completion and return of the used pads.

Receipts withdrawn from stores and used are recorded in a register book. This record should show the positions of used and unused stock at any given time. The Finance Officer should sign when she/he receives the receipt pads. A receipt voucher not used due to error should be marked as void and kept in the pad with all copies.

4.4 Purchase Advances

Until appropriate supporting documents are produced, small amount of payments can be paid by Suspense Voucher (Petty Cash Fund Form-**Annex-12**) from the petty cash fund. The CE shall approve purchase advances.





Upon presentation of proper receipts or supporting documents to the Finance Officer, the Petty Cash Fund Form) shall be settled in front of the payee. For actual purchase or service, a Cash Payment Voucher or Bank Payment Voucher shall be prepared.

Advances paid to HEADS staff can be divided into two groups, small cash advances for purchase of goods that are accounted for within the same day or a short period of time, and larger project advances taken out in the field for various purchases, payments to volunteers etc. If the use of project advances is extensive, establishing a cashbox can be an alternative.

Any project advance of a certain size should be registered in accounting system.

For small cash advances, the signed cash advance form is kept in the cashbox (or in a separate advance folder) as a security until the advance is settled.

To facilitate reconciliation of advances the following rules apply:

The form should be correctly completed with project code, account number and resource code and authorization signatures.

The advance should be spent for one project only to avoid mix up when accounting for an advance. If necessary, two project advances should be taken.

No new project advance should be issued before settlement of previous advance (exceptions must be permitted by authorized personnel).

4.5 Travel Advances

For all travels, Out of City Travel Request Form (Annex-8) or Local Travel Request Form (Annex-8 (A)) shall be filled by the requesting unit / official. The form shall be signed by the applicant and authorized by the respective unit head. The advance must be settled immediately upon return from trip by filling the Travel Expense Form (Annex-13).

4.6 Cash Handling

This section explains how cash should be handled in all HEADS offices.

Cash Count

Cash in the safe must be counted and signed in the safe-cash book at minimum one time per week.





As a minimum, all cashboxes have to be reconciled at the end of the month, using the cash counting form. When counting, cash in the cashbox is counted by its holder and one additional person, preferably the Chief Executive/Program Manager, Project Manager or the Finance Officer.

A cash count form will be completed and filed for the month-end closing procedure. (See [Annex-14 Cash Count Form](#)).

The cashbox should be counted by its keeper every day.

The cash counting form is kept in the binder with all reconciliation information of the Executive office. The binder should be kept in a locked filing cabinet.

The head of the Finance Section shall make cash count at irregular intervals. Procedure for cash counts will be as follows:

The person delegated to check the cash will drop at the finance office and take possession of the cash in the presence of the Finance Officer.

The checker will proceed to count notes and coins in detail and put down the details on the Cash Count Form ([Annex-14](#)).

The result should be the same with the amount of the petty cash fund. Then he/she makes the Finance Officer sign on the cash count form after he/she has signed.

If a difference persists after the detail count, the AFO will be responsible for such difference. Where the difference is an excess, an official cash receipt must be issued immediately.

Where there is shortage he/she will pay the difference.

Segregation of duties

Every field office should preferably have a Finance Assistant to ensure segregation of duties. A person who is handling cash should normally not have the possibility to register transactions in the accounting system and vice versa. This will reduce the risk of irregularities.





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A cashbox system is used to keep track of all cash use for a given project or by a certain project manager portfolio. It consists of:

Cashbox record form which is an excel file template showing all transactions

Vouchers (with supporting documentation) for the same transactions

Cash (preferably kept in a cashbox, safe or sometimes in a local bank account)

Responsibility of the cashbox keeper

The person receiving the cashbox is personally responsible for its contents. Anyone trusted with a cashbox must be informed about all procedures relating to it. All negative deviations must be covered by the holder of the cashbox.

Operating a cashbox

Every movement of cash in or out of the cashbox must be registered when it happens, and receive a row in the cashbox record form.

Cashbox registration should preferably be completed every day, to avoid backlog and ensure proper documentation and accuracy.

4.7 Internal Control On Petty Cash

Petty cash fund must be operated on impress system where fund amount is always equal to the sum of the cash on hand and the sum of the vouchers (petty cash & suspense vouchers) paid from the fund.

Segregate petty cash funds from other collections of cash and funds.

Ensure petty cash payments are not exceeded from the pre-set upper amount limit unless senior authorities of the Organization approve exceptions.

Petty cash payment vouchers should be pre-numbered and printed

Signatories must be from senior staff positions and other than the custodians of the petty cash fund.

Petty cash payment vouchers and supporting documents should be received before replenishment.

Cheques for petty cash replenishments should be made to the order of the petty cashier.





Petty cash payment vouchers and their attachments should be stamped either "Paid" or "replenished" immediately after the replenishment cheque is signed.

After signing on the Bank Payment Vouchers, replenishment cheques should be collected by AFO.

Petty cash in hand and related documents must be kept in iron safe which may be kept in a safe place.

The petty cash fund will always remain at a constant level.

On Cash Receipt

Make sure that receipt vouchers are pre numbered and printed by order of the proper authority.

Ensure daily cash collections are deposited intact in the bank account of the Organization.

Ensure physical controls over cash such as:

Protection of finance staff by accompanying drivers when carrying cash from and to banks,

Ensure providing fire proof safes, reinforced separate room and dependable lockers

Ensure that during the absence of the Finance Officer, replacement by a person of high responsibility and honesty is made.

Make sure that cash collecting and recording responsibilities are separate

Never accept post-dated cheques.

Ensure receipts of daily cash and bank position reports.

Make surprise cash counts at irregular intervals.





Section 5

ACCOUNT RECEIVABLE

5.1 Definition

Accounts receivable are claims from staff, other organizations and individuals to which HEADS granted/rendered fund/services on credit. Receivable in HEADS include project advances, salary advances, purchase advances, deposits and prepayments, and sundry debtors.

5.2 Staff Advances

A staff member may obtain an advance upon submission of a written advance request on staff advance request form **(Annex 23)** according to the prevailing policies and procedures of the Organization. Salary advances may also be given to the staff in case of serious problems.

The Chief Executive should approve the request. Upon receipt of the approved loan and salary advance requests, accounts will pay the staff in cash or cheque. For salary advance, the maximum deduction is 1/3 of the employee's monthly salary. This condition may be waived by the Chief Executive.

Additional advance must not be given before the previous advances are settled if any.

Accounting entries:

Dr. Staff Advances / loan account

Cr. Cash/Bank

When collections are made from staff members in cash or by deducting from their salaries, the following entry is passed.

Dr. Payroll Expenses / Bank

Cr. Staff Advances / loan account

5.3 Travel Advance

Travel and per diem advance is amount advanced to the employees of HEADS for approved official/business travels. Travel advance should be limited to reasonable expected expenses such as transport, lodging meals and reserve for unseen expenses. Additional advance must not be given before the previous advances are settled if any. Accounting entry for advance payment is:





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Dr. Accounts Receivable (individual staff account)

Cr. Cash/Bank

If the quantity advanced is small amount, it could be paid from the petty cash fund by suspense voucher. No accounting entry is required if the advance is paid by suspense voucher, until actual invoices are submitted to finance.

5.4 Purchase Advance

Purchase advance is money advance given to employees to purchase goods and services for HEADS's use. Advance payment should be approved by the CE or head of the Finance Section.

Purchase advance should be cleared within specified period against the invoice of the supplier and Good Received Note. Additional purchase advance must not be given before the previous advance is settled.

Accounting entry for advance payment is:

Dr. Accounts Receivable (individual staff account)

Cr. Cash/Bank

5.5 Other Receivables

This may mainly consist of individuals and organizations to which advance payment has been effected for purchase of goods and services. Upon receipt of proper documents, the following entry is passed by accounts:

Dr Account Receivable - Sundry debtors

Cr. Bank /Cash

When the purchased material is fully received by Goods Receiving Voucher or service rendered is confirmed by concerned authority, the following entry is passed:

Dr. Appropriate expense

Or Dr. Fixed assets





Cr. Account receivable - Sundry debtors

5.6 Internal Control On Staff Advance

Staff shall be eligible for salary advances provided they have adequate reason.

Request for salary advance must be approved by the CE.

No additional loan will be provided to any staff without ensuring settlement of previous loans/advances.

Salary advance should not exceed the net monthly salary of an employee.

On Travel Advance

Only delegated officials of HEADS must approve travel advances.

Travel advance should be limited to reasonably expected expenses such as transport, lodging, meals, and reserve for unforeseen expenses.

Travel advances must be cleared in full within five days upon return from trips.

Additional advances must not be given before the previous advances are liquidated if traveler has returned from previous trip.

On Purchase Advance

Purchase advances should be made in cheques in favor of the purchaser.

Purchase advances should be cleared within specified period against the invoice of the supplier and Goods Received Note.

Purchase advances made in cash, if any should be cleared within three days after items purchased are delivered to store against appropriate store documents.

Additional purchase advances should not be given before the previous advance is cleared.

On Prepayments

Ensure that the unexpired portion of prepaid expenses is recognized and adjusted to receivable account as at the fiscal period.

Keep both the receipts and contract document properly secured for eventual reimbursement.





6.3.2 Withholding Tax

Organizations having legal personality are required to withhold a particular percentage of the gross amount of payment they make to tax payers providing goods and services. HEADS will make necessary arrangement to withhold tax and transfer the same to the government as per laws in vogue.

6.3.3 Withheld Salary

Withheld salaries are net salaries which have been barred by the action of management. The entry to recognize the liability is treated under the Payroll section.

Upon settlement of the taxes and payment of salary withheld to the employees, the following entries are passed:

Dr. Withholding tax

Dr. Withheld salary

Cr. Cash or Bank

6.4 Inter- Project Financing / Loans

If in case, any of the HEADS's project needs some loan to start or complete & close its activities (as donors don't pay full budgetary amount at once in the beginning of the project) HEADS's Management committee (formed by the Executive body/BOD) will have authority to grant Inter-Project Loan (Loan from one project to another) not more than 20% of the total budgeted amount of the project required financing with following terms & conditions:

The loan will be granted after having approval from HEADS's Management committee which includes following six (06) members out of which 02 from Executive body/BOD, 02 from HEADS's head office & 02 project managers (both projects paying & receiving loan) nominated by the HEADS's Executive body/BOD:

Chief Executive,

Program Manager,

Finance Officer, Logistic & Procurement Officer

Both Project Managers (Loan granting project & loan requesting project).





The Inter-Project finance has to be returned within Three (03) working days (after receipt of fund from the donor to the loaned project) or after receiving the remaining portion of the total budget amount of the requesting project.

Inter-project loans will be properly & timely recorded in the books of accounts at the time of payments & receipts.

If felt necessary, approval may be sought from donor of the paying project.

6.5 Internal control

Ensure avoidance of penalties on defaulting payments of liabilities.

Personal income tax should be paid to the revenue authorities within one month from the date of collection.

Unclaimed or withheld salary should be deposited with the bank.

Unclaimed salaries should be paid according to the payment procedures and upon written authorization.

Ensure that accrued expenses such as water, electricity, telephone, service fees are estimated at the end of fiscal period.





Section 7

PAYROLL

7.1 Definition

Payroll represents the net salaries and wages obtained, after the gross pay has been reduced by all payroll deductions such as income tax, advances, loans and others.

Net salary of each employee is credited to his bank account directly or through cross cheque in name of employee or through transfer sheet whichever is convenient.

7.2 Preparation

After the payroll sheet is prepared, it is checked by the head of Finance Section and approved by the CE.

Salary and benefits to employees shall be paid by payroll on the 26th / 27th day of the month.

Crossed cheques to payees account only will be drawn for every employee. Net salary up to Rs. 15,000/- shall be paid through open cheque.

Employees will sign on the pay slip or on photocopy of the cheque at receipt of cheques.

Payroll reconciliation with previous month should be done before payment is affected.

The payroll should be examined at irregular intervals to verify the names of employees.

The following entry is passed when cheque is issued to Finance officer:

Dr. Salary and wages

Cr. Bank

Cr. Income tax

Cr. Loan (if any)

Cr. Others

Salary of terminated employee should be paid as soon as they submit their





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clearance - they need not wait until the payroll is prepared.

Payment of temporary employees shall be paid by Wages Sheet, after it is checked and approved by the respective Officer. Where payments are paid every fortnight, income tax on wages must be calculated on monthly gross wages.

7.3 Internal Control

Payroll preparation and payment functions should be segregated.

Payroll should be approved by the CE or by his/her duly authorized representative.

Payment of salaries and wages should be made direct to employees or to their legal representatives through cheques or their bank accounts.

Ensure payroll reconciliation with previous month.

Ensure that payroll information is kept confidential.





Section 8

BUDGETING

8.1 Definition

Budgeting is the process of allocating limited resources to unlimited demands. A budget is a comprehensive, formal plan, expressed in quantitative terms, describing the expected operations of an organization over some future time period. A budget deals with a specific entity, covers a specific future time period, and is expressed in quantitative terms.

8.2 Objectives

The main objectives of a budget are:

- To provide a detailed plan of action
- To foster coordination, cooperation and communication
- To provide a framework for performance evaluation
- To create awareness of organization costs

8.3 Functions of Budgeting

The two basic functions of budgeting are planning and control.

Planning encompasses the entire process of preparing the budget from the initial ideas through the development of the budget. Careful planning provides the framework for the second function of budgeting.

Controlling is the comparison of actual results with budgeted data, evaluation of the differences, and taking corrective actions to adjust for differences when necessary.

8.4 Budget Preparation

A detailed budget should be prepared in accordance with the accepted expenditure heading and classification. Each unit should prepare a detailed budget in accordance with the accepted expenditure heading and classification. The Finance Section need to give those involved in drawing budgets for their guidelines that will assist them in making the budget reasonable. This includes





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the income budget, what the organization expects to bring in to pay for the expenditure budget, through donations, membership fees, or other income.

The breakdown of required materials, human resources, and services must be broken down by unit and amount. The budget must reflect the different project activities planned under separate headings. It should be subdivided into the organization's different activities, and different categories of expenditure.

The current year budget should be broken down on a monthly basis so that a cash flow plan that could be used as a management tool would be made. When the budget is broken down into income and expenditure on a monthly basis and then linked to the cash you expect to have in hand at the beginning of each period, it gives you a cash flow plan.

Budgeting requires a lot of attention to detail, and one must be careful not to leave out any important steps. Use the checklist below when you do your budgeting:

Plan your activities;

Work out expenditure headings;

Work out income headings;

Cost your expenditure items carefully, including: allowing for inflation, salary increases, cost of living, and unusual expenses;

Work out what income you can expect carefully and conservatively;

Work out what your short fall is;

From your income and expenditure budget, develop a cash flow budget;

Present the draft for feedback;

Finalize your income and expenditure budget and your cash flow budget, ready for use.

Finally, the Chief Executive will present the budget to the Executive Body/BOD for approval. The budget should also be endorsed by the General Body. The approved budget should be circulated to the Officers who are responsible for the preparation and implementation of the budget.





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Sound financial planning requires that preparations of the budget be started before the beginning of the financial year to which it refers. The budget should be finalized at least two months ahead the period it applies. To ensure adequate time a budget, time table listing each step in the budgetary procedure and the time allowed for its completion should be preset.

8.5 Budget Structure

To facilitate planning and to enable control to be effective, you should try to ensure that the overall structures of the budgets correspond closely to the accounts structure. It is possible to organize budgets at different levels, e.g. by department, programme or project.

8.6 Budget control

The budget is a business of everyone in the organization; therefore, all actors should understand how it is drawn up, why it is important and how it is monitored.

An important part of the control function of budgeting is the comparison of budgeted data with actual operating results. The comparisons are presented in periodic budget performance reports.

Once the budget has been prepared and approved, the Finance Section starts the task of recording the budget and comparing it with actual figures and resulting variance.

Before any payment/purchase is affected, budget clearance should be obtained from the head of Finance Section. Budget comparison reports should be prepared and presented at the end of every month to the budget implementers.

Interim review of budget executions should be made to prevent over and under expenditures for proper management actions. Any substantial variance between the budget and actual should be carefully investigated and reported to management, for the appropriate decision- making.

Quarterly Comparative Budget report is prepared to indicate budget variance. I.e. comparing actual expenditure with plan





8.7 Good Practices in Budgeting

8.7.1 Clarity

Since many different people will need to use the budget for different purposes, they should be able to understand it (and adapt it, when necessary) without any additional explanation beyond what is written down. Clarity and accuracy are so important to keep notes on budgeting assumptions and how calculations have been made.

8.7.2 Timetable

There are several stages involved in constructing a budget before it can be submitted for approval to the governing body, so it is a good idea to prepare a budgeting timetable and commence the process early. The following is expected budgetary timetable:

Each cost center or department should prepare and complete its budget and submit it to accounts for compilation three months before the end of the current accounting year.

The draft budget document should be completed and submitted to the budget committee/or the planning team two and half months before the end of the current period.

The budget committee/planning team should review and recommend to the higher body of the Organization for approval. The budget must be approved two months before the end of the current period.

The approved budget should immediately be communicated to the respective cost centers or departments.

8.7.3 Budget Headings

When setting a budget for the first time or when reviewing a budget, it is important to pay attention to the Chart of Accounts. This is because the budget line items also appear in the books of account and on management reports. If the budget items and accounting records are not consistent then it will be very difficult to produce monitoring reports once the project implementation stage is reached.

One way of achieving consistency is to design a Budget Preparation Sheet for your organization, which will act as a memory-jogger and prompt staff to





include all relevant costs. It will list all of the main types of income and expenditure that a project or department might have in a typical year

8.7.4 Estimating Costs

It is important to be able to justify calculations when estimating costs. Even if you use the incremental method of budgeting, do not be tempted to simply take last year's budget and add a percentage amount on top for inflation. While last year's budget could be very helpful as a starting point, it could also be very misleading.

The best approach is to make a list of all the inputs required and specify the number and unit cost of each item. From this detailed working sheet, it is a simple matter to produce a summarized budget for each line item and is very easy to update if units or costs change.

8.7.5 Contingencies

Try to avoid the practice of adding a "bottom line" percentage for so-called "contingencies" on the overall budget. As a rule, donors do not like to see this and it is not a very accurate way of calculating a budget. It is better to calculate and include a contingency amount for relevant items in the budget e.g. salaries, insurance, and fuel. Every item in your budget must be justifiable - adding a percentage on the bottom is difficult to justify - and difficult to monitor.

8.7.6 Forgotten costs

Many a failed project is based on an under-costed budget. There is a tendency in the NGO world to under-estimate the true costs of running a project for fear of not getting the project funded. The most common of the forgotten costs are the Indirect or non-project costs. Here are some of the most often overlooked costs:

Staff related costs (e.g. recruitment costs, training, benefits and statutory payments)

Overhead or core costs (e.g. utilities)

Vehicle running costs

Equipment maintenance (e.g. for photocopiers and computers)

Audit fees





8.8 Cost Sharing for projects with Donors

As HEADS is a nonprofit organization, it cannot share in cash however it can share in kind i.e. Equipment, furniture etc from its available resources as per agreement with donors.





Section 9

REVENUE/INCOME

9.1 Definition

Revenue represents the total income generated by an organization from donations, membership fee, supports either in cash or in kind and from sales of miscellaneous sources.

9.2 Sources of Income

9.2.1 Income from Donors

HEADS shall solicit funds from donors for its specific programs/projects. Funds shall be credited to accounts pertinent to each program and project thereof.

9.2.2 Contribution in Kind

These donations include contribution in kind such as properties, commodities, materials, facilities, etc.

9.2.3 Other Sources

Funds shall also be raised from membership fee, donation / contribution from BOD, special events, gifts, sales of products produced by beneficiaries and other collections. Collections from these shall be accounted separately and be utilized for solving unforeseen problems of the project areas and beneficiaries training.

9.3 Expenditure by donors

There are different types of expenses incurred on behalf of HEADS by donors. Donors should send monthly expenditure report/debit note to HEADS head office.

The head of Finance Section should check the report and if there are any discrepancies or any queries he/she should write to donors for clarification.





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9.4 Accounting Entries

Income in cash or in kind is recognized on receipt. The entries are:

Dr: Cash/Bank

Cr: Income

For donation in kind, i.e., material, facilities and voluntary services, the journal entries are:

Dr: Appropriate Expenditure Account

Cr: Income

The recording for material sales is:

Dr: Cash/Bank

Cr: Income

9.5 Internal Controls

Ensure that records are maintained for all donations including the donor's name, date and the compliance requirements;

Follow-up the implementation of the donations whether they are in accordance with donor's requirements;

Ensure that subsidiary ledger is maintained for each donor;

Ensure that donated materials are physically inspected;

Ensure that donated materials and free voluntary services are recorded at fair market value.



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Section 10

EXPENDITURE

10.1 Definition

Expenditures are financial commitment or cost incurred in connection with implementing projects funded or running cost of the Organization.

10.2 Kinds of Expenditure

Expenditures are regrouped and reclassified to facilitate meaningful interpretation of economic analysis and financial information for decision-making. Expenditures may be classified as capital expenditures where assets are expected as a result of completion of a contract, and operating expenses where resources are consumed in the process of production of revenue generating activities or completely consumed in operating program activities.

Expenditures may also be classified as project and administrative. Expenditures incurred in relation to specific project or activities are known as project expenditures.

While administrative expenses are costs incurred but in no way related to any particular project, operation or revenue generating activities. These expenditures are accumulated in general overhead accounts until year-end and distributed to activity cost centers on a selected and meaningful ratio.

Details of project expenditures should align with the details of budget in the project agreement. By doing so it is possible to control the budget versus actual expenditure reports.

10.3 Expenditure Authorization

The Finance staff is responsible for controlling that all expenditures have been properly authorized and have the correct documentation before payment is released. To ensure the latter, the Executive office needs to have the following documents:

Authorization table & Signature sample list (Annex-15, 15(A).

SOP for authorization table: (Annex-16)

Document and signature checklist (Annex-20).

The objective of this set of documents is to:

State who is delegated which rights of authorization within the program



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State who has authorization right in case of absence

Show samples of signatures of all relevant staff.

List all documentation and required signature that needs to be present for all release of funds

Indicate logistic limits valid for the program so that it's possible to verify that any kind of purchase has been subject to a correct procurement procedure.

Indicate the limit for the Chief Executive's approval

The ownership of this set of documents lies with the Chief Executive, but it is the Finance Officer responsibility to make sure:

That necessary local adjustment is made to the documents.

That the set of documents are updated at all times

That relevant staff are aware of them and acts upon them

In case of absence of person with authorization rights, example: field office with only one project manager and Chief Executive is the authorizer according to authorization table, alternative solutions such as attaching an email with authorization from Chief Executive can be accepted. However, all vouchers should be signed retroactively when vouchers are sent to the main office for registration.

10.4 Voucher slip

The HEADS standard voucher slip (Cash Payment Voucher, Bank Payment Voucher etc) should be used as the front page for all expenditure documentation in all offices.

The following signatures are mandatory:

Requested/Certified by: The signature proves that the good/service was requested and that the good/service is received as ordered (quality, quantity, price and time) and that the invoice corresponds to the order. This implies that the person has to check that all necessary documentation is attached to the voucher.

For personnel cost such as travel claim or items for staff accommodation, the certifier is always the receiver of the goods/service. The authorizer in this case has to be someone with a higher position that has authorization right for the relevant project.





If the certifier also has the right to authorize (for example Project Manager), one of his/her colleagues will take the role as certifier.

Authorized by: This signature proves that the expenditure is authorized and can be charged to the relevant project, account and resource number as indicated on the voucher slip.

Verified by Finance: Finance staff will check:

That the signatures are signed by different persons and that they are in accordance with the authorization table and signature list.

That supporting documentation is in line with the "Document and signature checklist".

That account, resource, project number and amount are correct.

NOTE: Finance staff can only in accordance with the authorizer, change account or project code on the voucher slip if an error is detected.

Who is responsible for the preparation of the voucher?

It's the Finance section that is responsible for the preparation of vouchers.

Why include donor's account code in the voucher slip?

Registrations of donor's account code on the voucher slip and consequently in the accounting system facilitates the financial reporting to donor. For the time being it is possible to enter the account codes of USAID, EC, ECHO, UNHCR and DFID. It is important when making the budget that there is an explicit link between HEADS's and donor's account codes.

Simple rules govern the assignment of transaction dates:

The date on the voucher slip must correspond with the system transaction date and shall in all instances be the date when the transaction happened.

In no circumstance shall the transaction date be outside of the current accounting period.

If the transaction is made in, for instance early December for period 11, the date of the transaction should be the last day in November.





Filing rules:

The finance archive has to be organized in the order of the accounting system transaction numbers.

As much as possible of original documentation has to be attached to the voucher and kept filed in the finance archive with the corresponding voucher. If it for some reason is more practical to file some of the documentation in the logistics archive, there has to be a reference number on the voucher that can be used to easily find this documentation. It can be useful to keep a copy with the voucher.

It should be known to everybody in what way the link between the Financial and Logistics archive is made and the voucher slip denomination should be adjusted. (Tip: Use the number of Purchase Order on the voucher to link to the Logistics archive).

10.5 Recording

The recording of expense transaction and the precautionary measures are dealt with in the payment sections of this manual. The account distributions and coding are all done in the petty cash, Bank Payment Vouchers and Journal Vouchers.

10.6 Internal Controls

Ensure that all expenses are properly accumulated, classified and summarized in the expense ledger account;

Ensure that expenditure coding and posting are properly done;

Ensure that expenditures are made from the related budgets and project funds;

Ensure that all expenditures are included in the year-end report; and

Compare expenses of previous year with that of current year and evaluate the difference.

10.7 Chart of accounts

This section describes the structure of the chart of accounts and the rules governing the different types of accounts. (Detailed chart of Accounts is given at **Annexure-17**)





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The same chart of accounts is used across the organization.

Only the Finance Officer has the authority to establish new accounts, or close existing ones. If a field office has specific needs, this should be addressed to FO.



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Section 11

FUND BALANCE

11.1 Definition

Fund balance is the accumulated balance of the difference between the Incomes received and Expenditures incurred in an accounting periods. Fund balance is a balance sheet item. The difference between incomes and expenditures is transferred to the fund balance account. It should be ensured that project funds are kept separately from any other funds.

11.2 Classification of Fund

Restricted Fund - This fund accounts for the operating resources of HEADS, which are expendable only for purposes specified by donors.

Unrestricted fund -This fund accounts for all operating resources over which the Executive Body/BOD of HEADS has full control.

11.3 Accounts Recording

All expenditures should be closed to the respective revenue centers. The balance on each income center shall be closed to the appropriate fund balance account.

11.4 Internal Controls

Accounts should ensure that restricted funds are not spent without prior approval of donors.

Accounts should ensure that source of funds are properly reported to the controlling government agency.

Accounts should ensure that the spending of prior year's balances is approved for expenditure of current year.





Section 12

FINANCIAL REPORTS

12.1 Definition

Financial reports are summary of all the transactions for a specific period and show the financial position of an organization. They should meet the qualitative characteristics of relevance, understandability, reliability, verifiability, neutrality, timeliness, comparability and consistency. The objectives of financial reports include:

Serve as information sources to management and other authorities for planning and economic decisions.

Provide donors/users with information for predicting, comparing and evaluating earning and spending power.

Judge management's ability to utilize resources effectively in achieving primary goals.

Serve as source of disclosure for underlying assumptions with respect to matters subject to interpretation, evaluation, prediction or estimations.

12.2 Types of Reports

12.2.1 Financial Reports:

Balance sheet - is a statement showing the financial position of an organization as at a specific date. It shows exactly how much the organization is worth at the moment when the snapshot is taken.

Revenue and Expenditure Statement - is used to look at the year's performance. It compares the budgeted income and expenditure with actual revenue and expenditure and identifies variances. For example, the monthly income and expenditure report will tell you what the difference is between your income and expenditure budget for the month and what actually came in or was spent. It will also tell you what the difference is between the budget and the actual expenditure for the year. These differences are called variances. This is where your budget becomes a living tool, a way of managing the finance of the organization.





By looking at the differences, you can take action to prevent the cash flow problem, you can take action to control expenditure when it rises too high, and you can look for trends that will indicate that your budget was wrong and needs to be adjusted.

The reason for significant variances should be reported. Being able to see where the variances are, and what they are, helps you to identify problem areas. The point of analyzing the variances is to give you the information that will enable you to make decisions and take action.

Cash Flow Statement - is details of cash balance at the start and end of the reporting period that shows the change in cash over a specified period of time.

Notes to the Accounts - constitute an important part of the financial statements as they give the reader of the financial statements additional information detailing those contained in the balance sheet and profit and loss statement. They also include the accounting policies adopted by the organization in preparing the financial statement. The notes to the accounts are parts of the financial statements presented as explanatory details to financial statements.

12.2.2 Management Reports

Management reports are produced for the consumption of management for decision-making purposes.

Income Statement by Budget Line;

Expenditure report by Cost Center;

Donor Report

Other reports as required by management.

12.2.3 The Donor Report

Donors require that an NGO is able to demonstrate financial soundness before granting the release of funds. This is why the donor report is so important. In most cases the report will include a budget compared to actual summary, accompanied by a narrative report on the activities being undertaken. If the reporting period coincides with the preparation of the management accounts, a donor report will not involve too much extra work.





Where there are several donors it is important to set up the accounting systems so that the information required by the donor agency can be easily retrieved. Otherwise the organization will be involved in a tedious information gathering exercise every time a report is required. The use of Cost Centers is particularly useful here.

When putting together a report to donors:

Do try to meet reporting deadlines as per contract agreement with each donor (request an extension if this is not possible)

Do produce accurate and verifiable figures

Do not set out to conceal under-spends or over-spends

Do add notes to the budget comparison report to explain any significant variations do keep the donor informed of any potential problems

12.3 Dates for Production of Reports

The financial reports stated above should be produced in draft form within one month after the end of the fiscal year.

The financial statements should be reviewed by management and submitted to the external auditors within 30 days after the draft is completed.

12.4 Audit Plan

The audit is an independent assessment of the record-keeping systems and financial position. Besides internal audit on monthly basis, all books of accounts of HEADS shall be audited annually by external audit firm.

The audit is an independent report that will cover:

How much money the organization has received and how much it has spent in the year,

How and to what the money was spent,

Whether the money was spent in accordance to the policies, rules and regulations of the organization,





To see the efficiency and effectiveness of the organization,

To see that donor requirements are fulfilled,

To assess whether the accounting policies are appropriate to the organization's circumstance, consistently applied and adequately disclosed, and

To give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error

From the donor point of view, audit is very important because it is an independent assessment of the operations of the organization. The General Body, Executive Body and Government also require the audit report.

The head of Finance Section is responsible in facilitating and coordinating the audit activities. All other staffs have the responsibility to fully cooperate with the auditors by providing any required information or documents. When necessary, the auditor may pay visit to the project sites

The audit work must be finalized within three months after the fiscal year is over. After the audit work is completed audit reports must be distributed to the BOD, Executive Body, Donors and Government Institutions. All members of management including the Chief Executive are responsible for the implementation of recommendations cited by external auditors in their audit report. The BOD is responsible for the nomination of the auditor on recommendation of the Budget and Accounts Committee.



BOG Meeting Minutes

Date: January 06, 2025

Participated by:

Raza Ullah Jan	Executive Director
Samina Khanam	Chairperson Board
Uzma Amin	Board Member
Nawaz Ali Shah	Board Member
Amabareen Banori	Board Member
Muhammad Jidran	Board Member
Abid Ali	Board Member
Tahira Nasreen	Board Member
Sayed Ali Shah	Director Program
Asif Ali	Director Operations
Ramsha Khan	HR Officer

Agenda Items:

- Change in leadership position
- Formation of the Annual Report, Annual Budget, and Strategic Plan.
- Completion of the NDRMF Capacity Improvement Action Plan.
- Processing for Charity Commission in Baluchistan and Khyber Pakhtunkhwa.
- Revision of HEADS policies.
- Renewal of Society Act Registration for 2025.

Proceedings & Outcomes:

The meeting commenced with the recitation of the Holy Quran, followed by a formal welcome note delivered by the Chairperson, Ms. Samina Khanam, and the Executive Director, Mr. Raza Ullah Jan. The discussions focused on the agenda items and organizational improvements.

- The Board decided that Mr. Raza Ullah Jan has been shifted from the position of Chairperson of the Board of Directors (BOD) to Executive Director of HEADS. This follows the resignation of Ms. Samina Khanam from the role of Executive Director and been appointed as Chairperson of the Board of Directors, effective immediately.
- The Board emphasized the importance of preparing Annual Report/ Annual Budget and Strategic Plan to assess the organization's current standing and plan strategically for the upcoming year.
- As HEADS has been conditionally accredited by the National Disaster Risk Management Fund (NDRMF) for six months, the Board reviewed the shared Capacity Improvement Action Plan. It was decided to prioritize its completion within the stipulated timeframe, recognizing this as a crucial opportunity for the organization.

Health Education and Development Society (HEADS)



- The Board agreed to initiate the process for Charity Commission registration in Balochistan. Police verification for the Charity Commission in Khyber Pakhtunkhwa will be expedited to obtain the certification promptly.
- A comprehensive review of organizational policies was conducted. The Board proposed and approved necessary amendments to align with current needs and best practices.
- It was noted that the Society Act Registration expired in December 2024. The Board resolved to apply for its renewal for 2025 without delay.

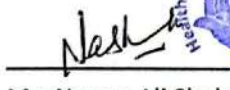
The meeting concluded with a thorough review of the agenda items, ensuring they aligned with the organization's strategic objectives. The Board expressed optimism about the successful execution of the discussed initiatives.


The Chairperson concluded the meeting with a vote of thanks.


Signed on this Monday January 06, 2025 by authorized signatory.



Mr. Raza Ullah Jan
Executive Director


Ms. Uzma Amin
BOG Member



Mr. Nawaz Ali Shah
BOG Member


Mr. Abid Ali
BOG Member


Mr. Sayed Ali Shah
Program Director HEADS


Miss. Ramsha Khan
HR Officer


Ms. Samina Khanam
Chairperson BOG


Mr. Muhammad Jidran
BOG Member


Ms. Ambareen Banori
BOG Member


Ms. Tahira Nasreen
BOG Member


Mr. Asif Ali
Director Operations HEADS

Address: House 219, Street,1, Sector F/9, Phase-6, Hayatabad, Peshawar, KP
Email: info@heads.org.pk / website: www.heads-ngo.org Ph:091-5861889

Policy Review & Update Record

A Board meeting was held on January 6, 2025, with the primary agenda of reviewing organizational policies. The Board advised management to conduct a comprehensive policy review.

In response, the Finance & Audit Committee, under the lead authority of the Executive Director, reviewed the **Financial Policies** and **Logistics & Procurement Policies** on January 31, 2025. The review process included:

- Annual assessment of financial policies.
- Adjustments based on audit findings, best practices, and regulatory updates.
- Review and amendments in logistics & procurement policies to enhance efficiency and compliance.
- Implementation of feedback mechanisms for continuous improvement.

Means of Verification: Updated policies, policy review reports, and feedback records.



Health Education AND Development Society
(HEADS)

Raza Ullah Jan
Executive Director



Minutes of the Meeting of Board of Directors (BoD) Health Education and Development Society (HEADS) 22 October 2025

Mode of Meeting: Virtual (Screenshot Attached)

Participants:

- Dr. Ms. Uzma Amin (Chairperson)
- Mr. Raza Ullah Jan (Chief Executive Officer)
- Mr. Ikram Ullah (Member)
- Ms. Ambreen Banori (Member)
- Mr. Majid Khan (Member)
- Ms. Jabeen Begum (Member)
- Mr. Kamran Khan, Architect (Member)

Agenda:

- Change of Board Members from Societies Act to SECP.
- Opening of New Bank Accounts.
- Modification in Organogram.
- Updating the Procurement and Financial Policy.
- Preparing the Policy on Appointment and Governance of the Chief Executive Officer (CEO).
- Any Other Business (AoB).

Proceedings & Outcomes:

The online meeting commenced on Wednesday October 22, 2025 with the recitation of the Holy Quran. Thereafter, Mr. Raza Ullah Jan, CEO, welcomed all participants and extended a warm welcome to the newly nominated Board members. Outcomes of the Agenda items are as below:

1. **Change of Board Members from Societies Act to SECP:**
 - After acquiring the license of Security and Exchange Commission of Pakistan (SECP); the above-mentioned participants will be now performing as the 'Board of Directors' of HEADS organizations.
 - It was noted that Dr. Uzma Amin and Ms. Ambreen Banori, who had previously served under the Societies Act, continue as members under the SECP registration.

2. Opening of New Bank Accounts

- The Board reviewed the organization's financial requirements and unanimously agreed to open additional bank accounts to improve operational efficiency and strengthen financial diversification.
- The Board further suggested that opening of Both Current and PLS account with National Bank of Pakistan (NBP), Bank of Khyber (BoK) and Bank of Punjab (BoP) may face difficulties due to signatory requirements. Therefore addition to the aforementioned banks and for quicker processing, the Board recommended prioritizing the opening of accounts in the following three banks as well:
 - Samba Bank
 - Bank Alfalah
 - United Bank Limited (UBL)
- These banks were suggested due to their ease and speed of account opening procedures. Meanwhile, the process for opening accounts with the previously mentioned banks (NBP, BoK and BoP) will continue side by side.
- PLS Account at Bank Islami, as the organization already maintains a Current Account with this bank.
- PLS account at Askari Bank. Account at Askari Bank, as the organization's current Account with this bank is already in process for the last four months.
- All accounts will be opened under the title: "Health Education and Development Society (HEADS)" and will adhere to organizational financial policies and governance protocols.

3. Modifying the Organization's Organogram

- Board members thoroughly discussed the organogram and finalized with amendments. The revised organogram was unanimously approved by the Board members and is attached as Annex I.

4. Updating the Procurement and Financial Policies:

- Updated versions of the Procurement Policy and Financial Policy were presented to the Board and approved consistently. These documents are attached as Annex II and Annex III.

5. Preparing the Policy on Appointment and Governance of the CEO:

- A draft of the Policy on Appointment and Governance of the Chief Executive Officer (CEO) was discussed and approved steadily. The policy is attached as Annex IV.

6. Any Other Business (AoB)

- The meeting was conducted online, and a screenshot of the virtual meeting is attached for official recordkeeping. Depending on the availability of the members, next meeting will be scheduled in person.

Conclusion

The Executive CEO thanked all members for their participation and constructive input. The Board expressed confidence that the discussed actions and approved steps will contribute to strengthening organizational governance, financial management, and operational standards.



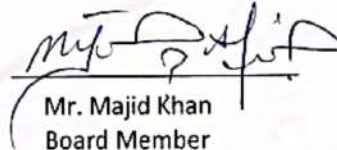
Dr. Uzma Amin
Chairperson, Board



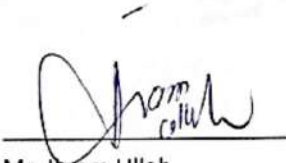
Mr. Raza Ullah Jan
Executive Director/ CEO



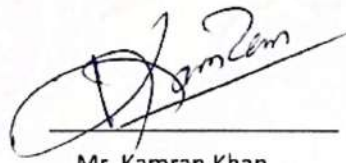
Ms. Ambareen Banori
Board Member



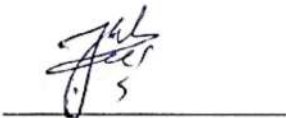
Mr. Majid Khan
Board Member



Mr. Ikram Ullah
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Mr. Kamran Khan
Board Member



Ms. Jabeen Begum
Board Member