



**Islamic Republic Of Afghanistan
Kabul Municipality**



CASH MANAGEMENT STANDARD OPERATING PROCEDURE

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Signature: _____



Islamic Republic Of Afghanistan Kabul Municipality



Definitions: The following definitions apply to this Standard Operating Procedure:

FMIS

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

Cash

Comprises cash on hand and demand deposits. (IPSAS 19 & 20)

Cash Equivalent

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. (IPSAS 19 & 20)

Cash receipt

Cash inflow or similar transaction increasing the balance of public money. (Afghanistan, Financial Regulations, 1384)

Cash payment

Cash outlay or similar transaction with the purpose of settling commitment or reducing liability. (Afghanistan, Financial Regulations, 1384)

Chart of Accounts

The KM uses chart of accounts containing classifications of budget and accounting records according to the requirements of the article 53 of the PFEML and taking into account the requirements of accounting controls and reporting budget and financial information. (Afghanistan, Financial Regulations, 1384)

Commitments

Any order placed, contract awarded, service received or similar transaction that will require payment as a settlement. (Afghanistan, Financial Regulations, 1384)

Background

The purpose of this procedure is to lay out concrete guidelines for KM officials on how to control spending in the aggregate, implement the budget efficiently and minimize the cost of borrowing.



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Control of cash is a key element in budget management ensuring that adequate cash is always available to meet the KM's obligations toward its citizens. For efficient budget implementation, it is necessary to ensure that claims will be paid according to the contract terms and that revenues are collected on time. It is necessary to minimize transaction costs; and to borrow at the lowest interest rate or to generate additional cash by investing in revenue-yielding projects. It is also necessary to avoid paying in advance and to track accurately the dates on which payments are due.

Bank Reconciliation

A Bank Reconciliation is a test of how accurate your cash book is compared to the bank statements. This will include checking that all cheques have been entered correctly into the cash book and that all bank charges, interest and direct debits have been recorded.

The bank balance per the cash book is unlikely to agree to the balance on the bank statement at the same date, due to payments by cheques taking a few days to be presented and cleared at the bank, and deposits not being cleared. The bank reconciliation shows how the difference can be explained.

All deposits to and payments from the official bank accounts maintained at the Pashtaney bank shall be reconciled with the Bank and the net balance of the fund shall be calculated and reported on monthly basis. The Payments and Asset Management units of the Kabul Municipality are required to reconcile payments and revenue receipts on monthly basis with the bank statements received from Pashtaney bank.

For special accounts opened at Da Afghanistan Bank for development project payments through Ministry of Finance, the document preparation (*Hawalajat*) unit is responsible to ensure that the payments are accurately reflected in the bank statements. The unit is further required to prepare and file a bank reconciliation report at the end of each solar month.

There may be items that appear on the bank statement that are not in the cash book, such as interest earned, bank charges, or direct debits. This will usually be because they are not known about until the bank statement is received. The cash book therefore needs to be adjusted by adding these items. It will also need to be adjusted where there are errors, such as the amount recorded in the cash book being different to that on the bank statement. If, however, this is due to a bank error, the bank should be contacted, rather than amending the cash book.

The Bank Reconciliation Form in the Appendix A.1 provides summary information on a bank account records including opening and closing balances, deposits, withdrawals, and unrepresented checks¹. It also details banking transactions that have not been recorded in the KM's accounting records. (*See Appendix A.1 with detailed instructions on how to prepare the Bank Reconciliation Statement.*)

Any discrepancies identified in the Bank Reconciliation form between bank transactions and accounting records must be reviewed and promptly fixed. If adjustments to bank records are required, then the Payment or Asset Management Unit will send a letter to Pashtaney Bank (or DAB in case of development projects) detailing the discrepancy and request the appropriate

¹ These are checks that have been issued by the Kabul Municipality but have not been cashed.



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transfer of funds. The following procedures shall be followed to prepare a bank reconciliation statement:


1. Obtain a final and endorsed monthly bank statement,
2. From the bank statement, find out any interest paid or received and other charges during the period of the bank statement,
3. Record the charges in the cash book and compute the new adjusted cash balance,
4. In the bank reconciliation form, deduct all the checks that are not yet presented to the bank and compute a new adjusted bank balance,
5. The adjusted bank balance and cash book shall now tally with each other. The reconciliation report shall be printed, approved by the supervisor and authorizing authority and filed accordingly. The final reconciliation report shall be shared with the Bookkeep Unit (*Daftardari*) and DM Admin and Finance office.

Cash Forecasting

The purpose of the cash forecasting is to implement effective systems to ensure that forecasts detailed on monthly and quarterly basis and the bi-monthly cash forecasts prepared by district offices for petty cash are as accurate as possible (on a cost/benefit basis).

The KM management is to nominate an officer, referred to as the Cash Forecasting Officer. This officer should be responsible for the submission of monthly and quarterly cash forecasts to the DM Finance and Administration Office. The Cash Forecasting Officer's name and contact details are to be on each forecast submitted and should be current at the time of submission. The following procedures shall be followed for preparing monthly and quarterly cash forecasts:

1. Collect monthly cash forecasts from the district offices for petty cash requirements detailed by object code and activity description,
2. Collect information from the Policy Coordination Unit about the installment payments to suppliers who completed their



**Kabul Municipality
CASH FLOW PROJECTION**

Effective Date: _____ Expiration Date: _____ Today's Date: _____

Fund Source: _____ Amount of Grant/Loan from Fund: _____

Prepared by: _____ Signature: _____

| Cumulative Amount Requested | | | \$ |
|---|---------------------------------|--------------------|-------------------------------------|
| Location Code | Object Code (Chart of Accounts) | Object Description | ESTIMATED AMOUNT of payment request |
| | | | \$ |
| | | | \$ |
| | | | \$ |
| | | | \$ |
| | | | \$ |
| | | | \$ |
| | | | \$ |
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| | | | \$ |
| | | | \$ |
| | | | \$ |
| | | | \$ |
| Total cash flow projection for next month/quarter | | | \$ |



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work based on the contract,

3. Take into account the fixed expenses that incurs in regular time periods such as staff salaries, rent payments and other routine expenses. For accuracy purposes, FMIS records from the recent months shall be closely reviewed to find out the routine commitments and their payment schedules (including payment schedules for projects),
4. For revenue flows, Asset Management unit should be contacted for the expected revenue inflows for the coming month/quarter. The revenue forecasts should ideally be collected from the district offices and be consolidated at the center.
5. Using the updated Chart of Accounts, the forecast details shall be consolidated and filled in the following template.

Revenue Collection

It is necessary to minimize the interval between the time when cash is received and the time it is available for carrying out expenditure programs. Collected revenues need to be processed promptly and made available for use. When charges and fees collection is done by the revenue officers at the district offices (or by revenue officials at the KM Headquarter) the administrative organization of these offices may have to be reviewed and their equipment modernized. Commercial banks in Afghanistan by virtue of the banking sector infrastructure are often able to collect revenues more efficiently than government offices, which should therefore focus instead on tracking unpaid fees/charges. When revenues are collected by commercial banks, arrangements must be defined to foster competition and ensure prompt transfer of collected revenues to the KM's designated bank accounts. Systems of bank remuneration through float (using the bank balance for investing purposes), which consists of authorizing the banks to keep the revenues collected for a few days, present inconveniences. Stringent rules to ensure prompt transfers must be established. Moreover, bank remuneration through fees is more transparent and promotes competitive bidding. An appropriate system, of penalties for citizens who are not paying their Safayi charges or other fees/charges are also an important element in avoiding delays in revenue collection.

Payments

For cash management, the control of cash outflows, which is directly related to organizational arrangements for budget execution, can pose more difficulties than the control of cash inflows. However, issues related to cash management should not be confused with issues related to the distribution of responsibilities for accounting control and administration of the payment system. The major purpose of controlling cash outflows is to ensure that there will be enough cash until the date payments are due and to minimize the costs of transactions, while keeping cash outflows compatible with cash inflows and fiscal constraints.

The first condition for ensuring that cash outflows fit fiscal constraints is good budget preparation and budget implementation covering both cash and obligations. However, during budget implementation, cash outflows must also be regulated through cash plans to smooth cash outflows.



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Payment techniques


Payment methods affect the transaction costs of cash outflows. The Banking sector in Afghanistan has been developing tremendously with several new financial products being introduced by the banks every year. The KM shall take benefit of the various payment methods (check, cash, electronic transfer, debit card, etc.). Modern methods of payment, for example, payment through electronic transfers instead of through checks or cash, allow the KM to plan its cash flow more accurately, expedite payments, and simplify administrative and accounting procedures.



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Appendix A.1: Bank Reconciliation Statement

| | | | | |
|--|---|--|-----------------|----------------|
|  Kabul Municipality Bank Reconciliation Statement | | | | |
| Section A: (This Section shall be filled by Accounting Office) | | | | |
| 1. Department | 2. Bank Name | 3. Bank Account No. | 4. Month | 5. Year |
| | | | | |
| 6. Bank Unit Records | | | | |
| a. Opening Bank Balance | | | | Amount |
| | | | | |
| b. Total Receipts | | | | |
| c. Total Withdrawals | | | | |
| d. Closing Bank Balance | | | | |
| 7. Deduct: Unpresented Checks | | | | |
| Date | Check No. | Issued To | Amount | |
| | | | | |
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| 8. Total Unpresented Checks | | | | |
| 9. Subtotal (Closing Bank Balance - Total Unpresented Checks) | | | | |
| 10. Add/Deduct: Entries Not in Bookkeeping | | | | |
| Entry No. | Entry Details | Amount | | |
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| 11. Total of Entries Not in Bookkeeping | | | | |
| 12. Balance as per Payment Unit Records (Subtotal +/- Entries not in Bookkeeping) | | | | |
| Section B: Review and Authorization | | | | |
| 13. Payment Manager (Sign & Date) | 14. Supervisor (Sign & Date) | 15. Authorizing Authority (Sign & Date) | | |
| | | | | |



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Instructions for filling the Bank Reconciliation Form

Purpose: To reconcile expenditures with bank statements

Prepare an original and one (1) copy as follows:

Section A: (This section shall be filled by Accounting Office)

1. Department – Enter the name of the organizational unit to which the Bank Reconciliation Form applies.
2. Bank Name – Enter the name of the bank used by the unit.
3. Bank Account No. – Enter the bank account number which is being reconciled.
4. Month – Enter the month of the T-8 reconciliation.
5. Year – Enter the year of the T-8 reconciliation.
6. Bank Unit Records – Record information related to cash deposits and withdrawals from the budget unit bank account.
 - a. Opening Bank Balance – Enter the opening bank balance based on the closing bank balance of the Bank Reconciliation Form from the previous month.
 - b. Total Receipts – Enter total receipts that have been deposited in the bank account with a deposit date in the month.
 - c. Total Withdrawals – Enter total withdrawals that have been taken from the bank account with a deposit date in the month.
 - d. Closing Bank Balance – Calculate the Closing Bank Balance by adding Total Receipts and Opening Bank Balance and subtracting Closing Bank Balance.
7. Deduct: Unpresented Checks – Provide information related to checks that have been written but not yet presented to the bank for cashing.
 - a. Date – Enter the date of the unpresented check.
 - b. Check No. – Enter the check number of the unpresented check.
 - c. Issue To – Enter the name of the person to which the check was presented.
 - d. Amount – Enter the amount of the unpresented check.
8. Total Unpresented Checks – Sum the Amount of all the unpresented checks listed in Field 7.
9. Subtotal (Closing Bank Balance – Total Unpresented Checks) – Subtract Field 8 - Total Unpresented Checks from the Field 6d - Closing Bank Balance.



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10. Add/Deduct: Entries Not in Bookkeeping – In this section add or deduct any bank transactions (withdrawals/deposits) that are known not to be in accounting ledger.
 - a. Entry No. – Enter the entry no. of the bank transaction.
 - b. Entry Details – Enter details related to the bank transaction.
 - c. Amount – Enter the amount of the bank transaction not in bookkeeping
11. Total of Entries Not in Bookkeeping – Sum the Amount of entries not in bookkeeping listed in Field 10.
12. Balance as per Payment Unit Records (Subtotal +/-Entries not in Bookkeeping)–Add Field 11 - Total of Entries Not in Bookkeeping to Field 9 - Subtotal.

Section B: Review and Authorization

13. Payment Manager/Asset Management Officer (Sign & Date) – This space is for the Payment Manager/ Asset Management Officer to sign and date after filling out the Form.
14. Supervisor (Sign & Date) – This space is for the supervisor of the payment manager/asset management officer to sign and date to verify the accuracy of the Form.
15. Authorizing Authority (Sign & Date)–This space is for the Authorizing Authority at the Mustofiat to sign and date in order to approve the final T-8 Form.

FMIS

The final cash balance shall be reconciled with the cash record of FMIS.

Distribution:

Original – Bookkeeping Office

Copy – DM Administration Office

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