

Procedures for Controlling Cash Advances

Background

Firstly; to facilitate expenditures on behalf of the government, the Treasury offers a range of payment mechanisms:

- Direct payment to a suppliers bank account;
- Producing a cheque in the name of a supplier for distribution via the bonded trustee of the budget user;
- Payment to overseas bank accounts of suppliers; and
- Advances to budget users in cash (including Petty Cash).

Budget users are encouraged to use direct payment modes to suppliers, either by seeking their bank account details locally or overseas, or by having a cheque drawn by the Treasury in favor of the supplier. This approach has many benefits to all parties, especially the supplier, who gets access to funds quicker. Large value, single supplier transactions should use direct payment.

Cash advances are not limited to Petty Cash advances – advances can be made in circumstances where direct payment is not suitable. These advances differ from Petty Cash in that they usually have no set upper amount ceiling and do not have transaction value limits. Petty Cash advances are used for small in value and urgent purchases.

Once issued, all advances must be acquitted – that is, details of the actual expenditures need to be advised to MOF so that proper allocation of expenditures in the Afghanistan Financial Management Information System (AFMIS) can occur. This acquittal needs to happen in a timely fashion, in order to ensure expenditures are proper and authorized, and if not, some corrective actions are initiated.

Direct payments to suppliers are by their nature acquitted transactions. Thus the budget user is cutting down on accounting work by using the direct payment method.

Secondly; Donors, who provide their money through the Afghanistan Reconstruction Trust Fund (ARTF), finance a large portion of the Operating Budget of Afghanistan. This financing is provided only when expenditures are judged to have met fiduciary standards set by the ARTF manager, the World Bank.

Purpose

The purpose of this Finance Circular is to explain the interim procedures developed by Treasury to be followed for:

- Accounting properly for expenditure from advance payments; and

- Fixing problems with expenditures assessed as ineligible for reimbursement from the ARTF.

The Accounting Department, MOF will be developing specific regulations and procedures governing advance arrangements in due course. The procedures described below will operate until the new procedures are promulgated.

Advance Payments

Problem with Use of Advances

The first big problem Afghanistan is faced with is that advance payments made from the Ordinary Budget are not eligible to be reimbursed by the ARTF – reimbursement is limited to documented expenditures (that is, documentation including purchase order, invoice, etc). The ARTF fund provides over half of the operating budget cash needs for 1383, and if expenditures are not reimbursed, pressure mounts on domestic revenues.

It is important to be clear that reimbursement action from ARTF will be delayed for advances that have not been acquitted, since the ARTF rules prohibit reimbursement of advances. Furthermore, if after 3-months (Center) or 6-months (Provinces) the advance has not been cleared, then it is too late to seek reimbursement, and the money is lost to Afghanistan forever.

The table in Attachment 1 shows the latest position for 1382, where only 50% of advances made for non-salary purposes have been properly acquitted – that is, Afs 1.168 billion remains outstanding.

Penalties for not Following Advance Acquittal Procedures

To fix the problem of advances remaining un-acquitted the Treasury has gained Government approval for two rules for 1383:

1. Advance payments which remain un-acquitted after 4-weeks will automatically cause further non-salary and non-travel related advances for that Budget User to be suspended (RULE #1); and
2. All expenditures and payments that are declared permanently ineligible due to the 3/6-month period mentioned above will be deducted from the remaining budget for the Budget User (RULE #2).

Operational Procedures for Advances

There are procedures in place for advance management but these procedures are not being followed – these procedures need to be more strictly observed, and Treasury have added procedures to properly manage the activity.

An M16 (claim for payment) is submitted with supporting document (M10). Cheque is issued and converted to cash at DAB. An M7 is raised in the Ministry to manage the purchase. Once transactions have been completed, receipts and supporting documents are entered to M12 and submitted to MOF to clear the advance.

New Advance Acquittal Arrangements

The following steps highlight the procedures that Treasury, MOF are implementing now to ensure all Budget Users observe the advance payment procedures. At some time in the future the Accounting Department, MOF will develop specific regulations and procedures governing the use of advances.

The important new element to the procedures is that Treasury has created a special object code in AFMIS for all new advances, one code for each major economic group. The M16/M20 request will be booked to this code as an advance, and not final expenditure. That is, the nominated object (economic) codes on the M16 will not be entered to AFMIS at the time the cheque is issued (however Budget Users will still be required to nominate the appropriate object (economic) code on the M16).

STEP 1: The Budget User will bring the advance request to Treasury. Provided all documentation is in order and there are no advances awaiting acquittal that are in excess of 4-weeks old, a cheque will be issued.

NOTE: The advance is treated in an accounting sense as a transfer payment, not expenditure.

STEP 2: The Budget User must submit to the Treasury, MOF the M12 within 4-weeks of the date of cheque issue.

NOTE: Failure to comply with STEP 2 will lead to Treasury invoking RULE #1.

{The table at Attachment 2 shows budget users in 1383 whose non-salary cash advances have been temporarily halted due to outstanding accounting documents (M12)}.

The Accounting Department, MOF will also follow-up with Budget Users to obtain M12.

STEP 3: Treasury will enter the M12 into AFMIS against the expenditure codes referenced on the M12 (checking they agree with the codes on the original M16).

NOTE: Where an M16 is issued in Month 2 and the M12 is received in Month 3, the expenditure is recorded in Month 3.

ARTF Ineligible Expenditures

Monitoring of Expenditure

The second big problem Afghanistan is faced with is that some expenditure is being found to be ineligible when the ARTF Monitoring Agent examines the paperwork.

To gain access to the funds of the ARTF, Treasury prepares each month a Statement of Expenditure (SOE) and submits it to the Monitoring Agent (MA) appointed by the ARTF Fiduciary (the World Bank).

The MA will visit Budget Users and select expenditures (not advances) to monitor for compliance with fiduciary standards. Expenditures that are found ineligible will be deducted from the SOE total, that is, the Treasury will not receive reimbursement for expenditures ruled ineligible. A table of the reason for ineligibility categories is attached as Annex A, and a copy of the fiduciary standards is at Annex B.

Treasury receives a weekly copy of the monitoring reports and will provide these to the Budget User and the Accounting Department, MOF. It is the responsibility of the Budget User to correct as many errors causing the expenditures to be classed as ineligible and pass the corrective information to the Treasury, MOF (until such time as the Accounting Department, MOF develop specific regulations and procedures covering use of advances).

The MOF will communicate with the MA to advise of corrective action on ineligible expenditures taken by Budget Users and if the corrective action is sufficient to render the expenditures eligible for reimbursement, the MA will add the amount back on a subsequent SOE.

Budget Users have only 3-months from the date of expenditure (for the Central Budget Users) and 6-months (for provincial) to correct the mistake that has caused the expenditure to be ruled ineligible.

After expiry of the 3 or 6-month ‘correction’ window for fixing ineligible expenditures, the Treasury will apply to the Budget Department to have the budget of the Budget User whose expenditures are ineligible reduced by the same amount as the ineligible expenditure, in accordance with RULE #2.

Note: Budgets will only be reduced for avoidable ineligibilities, i.e. where the expenditure could have been eligible. Therefore ineligible codes for O&M Nos. 4, 28 and 29 will not be deducted from budgets.

Summary of Advance Procedures – key points

1. Budget users are encouraged to use direct payments to suppliers in preference to advances.
2. Advances are not eligible for ARTF reimbursement.
3. Advances have to be acquitted within 4-weeks, else further non-salary advances will be suspended. (Note: Advances for travel purposes will not be suspended.)
4. Advance acquittal documents are to be submitted to the Accounting Department, MOF.

Summary of ARTF Eligibility Procedures – key points

1. Budget users have 3-months (Center) and 6-months (Provinces) from the date of original payment to fix expenditures judged ineligible by the ARTF Monitoring Agent.
2. Advice of fixed ineligible expenditures is to be provided by budget users to the Treasury, MOF.
3. If the expenditure remains ineligible beyond 3 or 6-months (depending on where the expenditure was processed) an equal amount will be deducted from the budget of the budget users.

Further Information

The MOF will be offering a special training seminar on the above issues soon. Budget Users will be invited to the seminar closer to the event.

Questions about the implementation of the requirement of this circular should be directed to the Treasury or Accounting Departments, MOF.

These procedures come into force from the date of this circular.

Abdul Salam Raimi
Acting Minister of Finance

Attachment 1

کود تشکیلات	اسم ادارات	ی مبلغ پیشک M16 Amount	ی مبلغ محسوب M12 Amount	باقیمانده Balance	ی فیصد %
101010	اداره امور ریاست دولت	450,094,694	334,407,905	115,686,789	74.30%
101030	ی تصدی ها کمیته ارزیاب	2,546,592	753,302	1,793,290	29.58%
103010	ستره محکمه	20,806,680	5,257,002	15,549,678	25.27%
201010	وزارت مالیه	53,812,925	37,919,807	15,893,118	70.47%
201210	مستوفیت کابل	587,930	136,170	451,760	23.16%
201220	گمرک کابل	468,387	214,539	253,848	45.80%
202020	وزارت دفاع	286,567,337	103,754,119	182,813,218	36.21%
203010	وزارت خارجه	226,297,138	133,917,178	92,379,960	59.18%
204010	وزارت حج و اوقاف	14,274,304	2,771,463	11,502,841	19.42%
205010	وزارت تجارت	14,931,059	14,421,901	509,158	96.59%
206010	وزارت امور داخله	581,305,151	395,750,157	185,554,994	68.08%
206110	ی محلی ارگانها	4,056,120	0	4,056,120	0.00%
206170	ی سرحدی قوا	9,213,765	0	9,213,765	0.00%
206210	ولایت کابل	722,903	0	722,903	0.00%
206901	ی عملیات ساحو	1,167,775	0	1,167,775	0.00%
206917	ی عملیات ساحو	198,840	0	198,840	0.00%
206918	ی عملیات ساحو	560,500	0	560,500	0.00%
206925	ی عملیات ساحو	9,495,000	855,000	8,640,000	9.00%
206926	ی عملیات ساحو	5,000,000	0	5,000,000	0.00%
206927	ی عملیات ساحو	1,562,200	0	1,562,200	0.00%
206929	ی عملیات ساحو	8,000,000	0	8,000,000	0.00%
206930	ی عملیات ساحو	4,411,500	15,000	4,396,500	0.34%
207010	وزارت معارف	14,953,572	6,340,744	8,612,828	42.40%
207110	ی ریاست سواد آموز	43,119	28,422	14,697	65.92%
207120	ریاست تعمیرات	89,154	68,854	20,300	77.23%
207140	ی ریاست تعلیمات تخنیک	837,923	454,079	383,844	54.19%
207141	ی ملیات ساحو	200	0	200	0.00%
207142	ی عملیات ساحو	3,850	0	3,850	0.00%
207143	ی عملیات ساحو	220	0	220	0.00%
208010	یوزارت تحصیلات عال	13,403,457	7,604,202	5,799,255	56.73%
208110	ریاست تعلیم و تربیه	132,482	94,787	37,695	71.55%
208120	ی تخنیک انس تیتوت پول	69,089	69,089	0	100.00%
208130	انس تیتوت طب کابل	170,171	170,171	0	100.00%
208140	پوهنتون کابل	291,915	90,938	200,977	31.15%
209010	وزارت عودت مهاجرین	27,075,024	3,295,220	23,779,804	12.17%
211010	وزارت پلان	6,072,216	2,205,865	3,866,351	36.33%
212010	زارت معادن و صنایعو	1,513,598	627,904	885,694	41.48%
212110	ی جیالوژی و معادن سرو	566,190	0	566,190	0.00%
213010	یوزارت صنایع خفیفه و مواد غذائی	563,957	435,097	128,860	77.15%
213110	ی صنعتی پارک ها	3,439,415	0	3,439,415	0.00%
214010	وزارت مخابرات	125,482,583	3,324,623	122,157,960	2.65%
215010	یوزارت باز ساز	2,361,530	548,040	1,813,490	23.21%
216010	وزارت اطلاعات و فرهنگ	6,528,824	0	6,528,824	0.00%
216110	ی رادیو و تلویزیون ریاست عموم	418,000	0	418,000	0.00%

کود تشکیلات	اسم ادارات	ی مبلغ پیشک	ی مبلغ محسوب	باقیمانده	ی فیصد
		M16 Amount	M12 Amount	Balance	%
217010	وزارت صحت عامه	6,452,801	3,564,443	2,888,358	55.24%
217110	شفابخانه کارته سه	15,205	15,205	0	100.00%
217120	شفابخانه عاجل ابن سینا	9,694	9,613	81	99.16%
217125	ی شفابخانه رادیولوژ	28,708	27,441	1,267	95.59%
217145	ی شفابخانه رابعه بلخ	3,600	3,600	0	100.00%
217150	شفابخانه وزیر اکیر خان	469,000	322,000	147,000	68.66%
217155	شفابخانه 52 بستر	41,520	41,520	0	100.00%
217160	شفابخانه توبرکلوز	54,725	54,725	0	100.00%
217170	ی آبداشفاخانه عل	245,180	44,950	200,230	18.33%
217180	شفابخانه جمهوریت	9,320	9,320	0	100.00%
217190	شفابخانه اتا ترک	1,280	1,280	0	100.00%
217200	ی شفابخانه انتان	160,000	160,000	0	100.00%
217205	ی شفابخانه اورتویید	8,925	0	8,925	0.00%
217215	ی طب عدل	40,360	8,600	31,760	21.31%
217250	ی طبی لابراتوار ها	23,000	0	23,000	0.00%
217280	یورکشاپ مرکز	1,000,000	1,000,000	0	100.00%
217305	ی کابلک میدان هوایی کلینی	2,400	2,400	0	100.00%
217345	کلینیک خوشحال مینه	75,370	28,400	46,970	37.68%
217410	ی مامورین بیمه صح	31,490	31,490	0	100.00%
218010	وزارت امور زنان	1,400,640	677,821	722,819	48.39%
219010	وزارت زراعت	117,894,648	15,030,218	102,864,430	12.75%
219130	ی املاک اداره عموم	400	0	400	0.00%
220010	ی ومنابع آبوزارت آبیاری	6,403,055	552,468	5,850,587	8.63%
220110	ی انسنتیوت پروژه ساز	463,997	363,410	100,587	78.32%
220120	ریاست تهیه مواد	131,391	131,391	0	100.00%
220130	ی عمیق ریاست حفر چاه ها	259,762	135,995	123,767	52.35%
220140	ی ریاست خدمات تخنیک	364,078	284,186	79,892	78.06%
221010	وزارت آب و برق	119,631,919	0	119,631,919	0.00%
221110	ریاست واپیکا	120,000	0	120,000	0.00%
221120	ی ریاست خدمات تخنیک	1,162,406	692,503	469,903	59.57%
221130	ی آب و برق کز تریبومر	759,562	639,614	119,948	84.21%
222010	وزارت فوائد عامه	6,312,335	3,048,084	3,264,251	48.29%
222110	ی قوای کار قوماندان	34,000	0	34,000	0.00%
222114	حفظ و مراقبت سالنگ ها	21,900	0	21,900	0.00%
222120	ی ریاست میخانیک	5,876,013	294,450	5,581,563	5.01%
222130	ریاست سرک ها	1,109,345	0	1,109,345	0.00%
222140	ی ریاست پروژه ساز	95,846	91,796	4,050	95.77%
223010	وزارت انکشاف دهات	22,256,426	5,876,407	16,380,019	26.40%
224010	وزارت شهدا و معلولین	5,305,943	1,686,561	3,619,382	31.79%
225010	ترانسپورت وزارت	4,258,323	1,502,794	2,755,529	35.29%
225470	ی ترانسپورت سکتور خصوص	178,853	0	178,853	0.00%
226010	وزارت سرحدات	58,693,727	26,571,947	32,121,780	45.27%
227010	یوزارت کارو امور اجتماع	1,396,176	1,226,945	169,231	87.88%
227110	نی روزنتور ریاست عموم	283,876	174,216	109,660	61.37%
227410	ی کودکس تانهار ریاست عموم	478,685	226,783	251,902	47.38%

كود تشكيلات	اسم ادارات	ي مبلغ پيشك	ي مبلغ محسوب	باقیمانده	ي فيصد
		M16 Amount	M12 Amount	Balance	%
227490	ي عمليات ساحو	150,000	0	150,000	0.00%
228010	ي وتوري زموزارت هوانورد	1,874,612	1,572,479	302,133	83.88%
229010	ي ومسكن وزارت شهرساز	4,279,922	0	4,279,922	0.00%
230010	وزارت عدليه	4,849,813	4,409,289	440,524	90.92%
230110	رياست اصلاح وتربيت اطفال	539,879	307,871	232,008	57.03%
302010	ي علوم اكادم	6,151,010	4,252,641	1,898,369	69.14%
303010	ي المپي كميته مل	17,274,983	16,038,555	1,236,428	92.84%
304010	ي وكارتوگرافي جيوديز	1,878,831	0	1,878,831	0.00%
307010	ي خارنواليو	12,501,577	5,747,900	6,753,677	45.98%
307110	ي قواي مسلح خارنوال	5,362,572	3,486,193	1,876,379	65.01%
307120	ي امنيت ملي خارنوال	2,464,415	0	2,464,415	0.00%
308010	ي ركميسيون اصلاحات ادا	24,138,489	20,654,711	3,483,778	85.57%
	Total	2,345,129,276	1,176,533,793	1,168,595,483	50.17%

Cash Advance Payment Register - Summary 1383

Date: 29 May 2004

No.	Ministry	No. of rejected claims M16s as of 27 May 04
1	Finance	1
2	Olympic Committee	1
3	Rural Development	1
4	Light Industries	1
5	Communication	1
6	Information & Culture	1
7	Education	10
8	Justice	27
9	Science & Academy	2
10	Public Health	2
11	Woman Affairs	3
12	Interior	16
13	Foreign Affairs	8
14	Agriculture	3
15	Water & Power	8
16	Labour & Social Affairs	2
17	Refugee Return	3
18	Public Works	3
19	Irrigation	7
20	Frontiers	5
21	Hajj & Religious Affairs	2
22	Planning	3
23	Supreme Court	1
24	Martyrs & Disable	1
25	Higher Education	3
26	Defence	4
27	Reconstruction	1
28	Cartography	2
29	Commerce	1
30	Central Statistics	1
	Total	124

Code	Ineligibility codes O&M	Code	Ineligibility codes Payroll
	Selected M16 is accounted for in General		
1	Ledger of entity	1	Net amount M41 ≠ amount cheque
2	Wrong economic code (*)	2	Amount cheque ≠ Amount bank statement
	Budget allotment is insufficient to cover		
3	expenditure	3	Incorrect calculation of M41 (totals)
			Number of staff M41 ≠ number of staff
4	Military or police expenditures	4	attendance report
5	M16 ≠ check amount	5	Incorrect calculation of Food allowance
			Incorrect calculation of deductions (e.g.
6	Invoice is missing	6	pension) from gross salary
7	Contract is missing	7	Not all staff signed for payment
8	Invoice is not equal to M16	8	Employee file not present
9	Invoice is not equal to contract	9	Employee not physically present
			Signature in attendance book ≠ signature
10	M10 is not equal to M16 / missing	10	employee written in presence of MA
11	No advance payment (advance payment = 1)	11	Salary according to M41 ≠ to contract
	Advance older than 3 months (fiduciary		
12	standard effective).		
13	M3 is missing (request of goods/services)	12	Military or police salaries
14	M3 is not equal to invoice/contract		
15	M7 is missing (receipt of goods)		
16	M7 is not equal to invoice/contract		
	Authorization of documents missing or		
17	incorrect		
18	Bid documentation is missing		
19	Insufficient number of bids		
	Local advertisement is missing (at least for		
20	goods > USD 50,000)		
	International advertising is missing (at least for		
21	goods > USD 250,000		
22	Authorized bid evaluation form is missing		
23	Lowest bid not chosen		
24	Contract is not equal to lowest bid		
25	Cheque does not equal bank statement		
26	Goods not present upon physical inspection		
27	Staff did not sign for (per diem) payments		
	Not expenditure – e.g. working capital,		
28	contribution in kind		
29	Expenditures prior to grant agreement		
30	Other		

Fiduciary Standards for Reimbursement of Wage Expenditure

There are three areas of fiduciary concern:

1. Payrolls should be within budget allotments - i.e. there is approval for the expenditure
2. The staff are legitimate public sector employees
3. Audit does not reveal any improper practices.

This gives a total of 5 standards that will be applied with effect from the third quarter of the Afghan fiscal year.

Payroll Fiduciary Standards	
1.	Payrolls are reimbursable only for Ministries that have submitted proposed employment limits for SY1382 and beyond, by HQ and province.
2.	Payrolls submitted later than three months after the end of the relevant pay period for central ministries and four months for provinces are not reimbursable. Provided, however, that provincial payrolls may still be reimbursed after four months if at least 80% of the provinces have met the four month deadline.
3.	Payrolls submitted with no allotted funds available are not reimbursable.
4.	Payrolls that would take the total staff paid in a given month beyond the Central Ministries' SY1382 budget caps are not reimbursable. ARTF will reimburse payrolls up to the budget cap.
5.	Reimbursement of payrolls is limited to 110% of the 3 month average of the numbers paid for that ministry/province - unless additional documentation, acceptable to the ARCSC, is provided showing justification for new hiring.

Fiduciary Standards for Operations and Maintenance (O&M)

There are three areas of fiduciary concern:

1. O&M expenditures should be within budget allotments - i.e. there is prima facie approval for the expenditure
2. Spending is efficient – i.e. appropriate procurement practices are followed
3. Audit does not reveal any improper practices

This translates in a total of 4 standards that can be applied with effect from the third quarter of the Afghan fiscal year.

O&M Fiduciary Standards	
1	O&M expenditure is reimbursed only for Ministries that have submitted budget allocations for SY1382 and later years, by HQ and province.
2	O&M expenditures with no allotted funds available are not reimbursable.
3	O&M expenditure is reimbursed only if documented satisfactorily in less than three months, for central ministries and six months for provinces.
4	O&M expenditures not in accordance with the issued procurement instructions are not eligible for reimbursement.