



# Civil Society Human and Institutional Development Programme

*A Company set up under Section 42 of the Companies Ordinance, 1984*

## Finance Policy & Accounting Practices

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## **1. General**

### **1.1 Short Title**

The rules will be called the CHIP Financial Rules, ("Rules").

### **1.2 Commencement and Application**

These Rules shall deem to have come into force with effect from 1st July 2005 (except where noted otherwise). These regulations shall supersede all previous rules.

### **1.3 Definitions**

In these rules unless there is any thing repugnant to the subject or context:

**1.3.1** *Company* means Civil Society Human and Institutional Development Programme, a company registered under Section 42 of the Companies Act.

**1.3.2** *Competent Authority* means the Board of Directors of the Company or any person to whom powers are delegated by the Board of Directors.

**1.3.3** *She / her* refers to both the masculine and feminine gender.

### **1.4 Compliance to Finance Policy**

All Employees including Contract Employees, Probationers, Consultants and Internees as defined in CHIP ESR shall have to comply with the Finance policy of the company.

### **1.5 Right of Amendment and Interpretation**

The Finance Policy is subject to review, addition, deletion, variation, perception and revocation by the Competent Authority at its sole discretion and upon such review, addition, deletion, variation and revocation by the Competent Authority it shall be binding on all Persons. Such amendments may be communicated to internal relevant persons by a general circular or by any other means of communication as the Competent Authority may decide.

## **2. Overall Accounting System**

### **2.1 Basis of Accounting**

The CHIP Accounts shall be prepared under the historical cost convention.

### **2.2 Accounting Year**

The Accounting/Financial year of CHIP is set as July 01 to June 30 (12 Months).

### **2.3 Chart of Accounts**

CHIP has developed and maintained a flexible Chart of Accounts covering:

- Current and Fixed Assets
- Revenue (Donor / Project wise, Assignment and Activity wise)
- Expenses (Project and Activity wise)
- Liabilities (Fund wise and other Short and Long Term payable wise)
- CHIP Funds

The Chart of Accounts acts as guiding and reference tool to finance persons while making posting of the transactions and generating reports. No addition or deletion can be made in Chart of Accounts without approval of the Manager Finance.

#### **2.4 Recording Business Transactions**

All the financial transactions will be processed and recorded within a reasonable time of happening of any event. Unless a payment is required to be delayed because of any requirement to be met, cash flow reason, non-availability of approving authority or signatories or any contractual reason etc, it should be processed within one week time. Once the payment is made, it should be recorded within one week time subject to availability of relevant finance person. The Manager Finance will ensure that, at all times, the organization's books of accounts reflect true picture of its financial affairs and no significant event is deferred from appropriate recording.

#### **2.5 Pre-Numbered Vouchers & Audit Trail**

All the vouchers use shall be pre-numbered or a unique reference code shall be given to it before posting, so that it can be traced easily whenever required, after posting.

#### **2.6 Segregation of Duties**

CHIP shall segregate duties of all finance and procurement/admin staff wherever practical. Segregation of duties means distributing the execution of one activity over more than one person. It includes segregation of duties in such manner that:

- Person responsible for procuring goods and services for the organization should not also be responsible for payments to supplier.
- The recording, checking and authorizing payments should be carried out independently of the person disbursing the payment.

In addition to closely monitoring of all payments and receipts by the Manager Finance and the Chief Executive Officer:

- Coordinator Procurement shall be responsible for procurements and negotiations
- Finance Officer shall be responsible for processing payments and preparation of Cheques recording transactions and reporting thereon.
- The work of all above shall always be guided and closely supervised by the Manager Finance. The detailed process will be undertaken as follow:

<b>Task</b>	<b>Responsible Department</b>	<b>Responsible Person</b>
Invoices/Bills Receipt	Procurement/Admin	HR & Procurement Assistant
Expenses Review	Finance Section	Finance Coordinator
Expenses Recognition	Project Coordinator/Programme Manager	Relevant Project Coordinator
Expenses Approval	CEO	CEO
Voucher & Cheque Preparation	Finance Section	Finance Coordinator
Voucher & Cheque Review	Finance Section	Manager Finance
Voucher & Cheque Approval	Finance Section	CEO/Board/Company Secretary

### **2.7 Correction of Entries**

All the Correcting Entries shall be passed through Journal Voucher duly verified by the Manager Finance and approved by the CEO.

### **2.8 Custody of Accounting Records**

All the accounting records, including but not limited to ledgers, statements, accounts, vouchers, invoices, banking records, record of procurement and sales, etc. shall be in the custody of the accounting personnel.

All the finance related record shall be kept for minimum five (5) years and the vouchers and GL listing shall be kept for minimum ten (10) years.

## **3. Accounting Polices & Recognition Criteria**

### **3.1 Grants & Donations**

Grants and donations shall be recognized only when the installment is received from the donor agency / partner. The grant(s) shall not be recognized only on signing of agreement.

### **3.2 Revenue**

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the organization. In case of fee based assignments the revenue is recognized at the time of completion of activities and when invoice is send. For training fee, the revenue is recognized when participant's fee is billed/received.

### **3.3 Restricted & Unrestricted Funds**

All the funds other than "CHIP Funds" are restricted funds and amounts are shown as payables in balance sheet duly verified by the auditors since as a policy CHIP does not open separate bank accounts for each project/restricted funds unless this is specifically requested by the donor.

### **3.4 Grants Related to Assets**

Assets are stated at cost less accumulated depreciation. Depreciation on assets is calculated by applying the straight-line method at specified rates. The rates followed are the ones allowed under income tax rules. Full year's depreciation shall be charged in the year of addition and no depreciation shall be charged in the year of disposal. Major renewals and improvements are capitalized whereas normal repair and maintenance costs are charged to income as and when incurred. Gain or loss, if any, on disposal of assets is included in current year's income. For reporting to donors, the fixed assets purchased from donor's funds are reported as period cost. For overall reporting purpose the asset shall be recorded at full cost and credit shall be given to CHIP funds. Depreciation expense shall be classified under "CHIP Own Expenditures" and shall not be reported to donors.

### **3.5 Allocation of Common Cost**

Expenses pertaining to more than one activity shall be allocated accordingly e-g Rent, Management Salaries, Utility Bills etc Common costs shall be allocated to the activities on a basis consistent, to the extent possible, with the actual use of the resources by individual activities.

## **4. Bank Accounts**

### **4.1 Power to Open Bank Accounts**

- 4.1.1 A bank account for CHIP can only be opened through a resolution passed by the Company's Board of Directors.
- 4.1.2 The resolution asking for opening of the bank account shall be prepared by the Manager Finance and tabled at the Board meeting.
- 4.1.3 The resolution must specify a brief reason for opening the account, the name of the bank, the branch of the bank, the currency of account, and all other relevant details and conditions that may be attached to the account.
- 4.1.4 The resolution for opening a bank account may be passed by the Board at a meeting or signed through circulation of the resolution. The number of directors signing a circulated resolution shall not be less than the number required to constitute a quorum at a directors meeting.

### **4.2 Number And Type Of Accounts To Be Opened**

CHIP can open any number of bank accounts, in whatever currency, in any town of Pakistan, as legally permitted and as required by its operations.

### **4.3 Operation of Bank Accounts**

- 4.3.1 All documents and instruments related to operation of any bank account, including but not limited to cheques, debit authorizations, letters of credit, guarantees, indemnities, promissory notes, bills, etc. must be signed by at least two signatories as specified hereunder.
- 4.3.2 There will be minimum 3 bank signatories. Signatories shall be CEO, Company Secretary and designated Board Members. Every banking instrument shall bear signatures of at least two signatories

### **4.4 Custody Of Cheques And Other Banking Instruments**

Manager Finance will be responsible for safekeeping, custody and records of all instruments related to bank operations, including but not limited to, unused cheques, debit authorization forms, etc. A file must be maintained for all such documents, with one page assigned to each instrument.

## **5. Receipts, Payments and Payroll**

### **5.1 Issuance of Receipt**

A formal receipt must be issued by CHIP for all sums received, in whatever form, for whatever purpose, even if the payer does not request for a receipt. For direct credits into the bank account, a receipt should be issued and retained internally.

### **5.2 Immediate Banking of all receipts**

- 5.2.1 All amounts received by CHIP, in whatever form (cash, cheque, draft, etc.) for whatever reason and purpose, must be banked intact, as soon as possible. At the back of each Bank Deposit slip, the number of Receipts covering the deposit, must be mentioned.

- 5.2.2 Under no circumstances should cash receipts be used for petty cash payments or other disbursements.
- 5.2.3 The Debit side of Cash Book shall be written on the basis of copies of receipts held. It is therefore important that all deposit entries appearing in the Bank Statement are supported by a receipt. This is an important audit trial.

### **5.3 *Approval of Invoices / Payments***

The following procedure shall apply to all payments to external parties (i.e. persons other than employees of CHIP).

- 5.3.1 All invoices, monthly statements, other forms of requests for payment like debit notes, etc. must first be sent to the Manager Finance.
- 5.3.2 Manager Finance shall mark these documents to appropriate finance person for verification and checking.
- 5.3.3 The relevant finance person shall ensure that all care and available means are employed to verify and check the documents requesting for payment. Support from relevant programme staff shall also be taken for verification of invoices. The supporting documents like order, delivery note, special instructions, etc. with the invoice/statement shall be attached before preparation of voucher and cheque.
- 5.3.4 A further check of arithmetical accuracy and cross-reference with support documents shall be made. If found in order, Payment Voucher shall be prepared. The Payment Voucher, along with all supporting documents, shall be sent for approval to CEO after getting verification from Manager Finance.
- 5.3.5 Only CEO has authority to approve payments to parties outside CHIP. If CEO finds the payment request in order, she shall sign the Payment Voucher as his authorization and send it to Finance Section.

### **5.4 *Actual Payment to External Parties***

- 5.4.1 All payments to external parties should preferably be made by cheque. Under certain exceptional circumstances, payments under Rs 10,000 may be made in cash out of petty cash fund. Any exceptional payment like expense in field or DSA above Rs. 10,000- shall be paid upon special authorization by CEO.
- 5.4.2 Finance Section shall prepare a cheque only after receipt of approval on the payment voucher (as outlined in Para 5.3.4 above). The cheque and approved payment voucher shall be sent to appropriate cheque signatories for signatures. Cheque signatories must also sign the payment voucher after signing the cheque.
- 5.4.3 All cheques to external parties must be crossed Account Payee Only. If a payee requests for non-crossed cheque, the payee must be made to sign on the Payment Voucher for receipt, clearly stating that the cheque has not been crossed at his request.
- 5.4.4 As far as possible, all cheques should be mailed to payees. Personal collection of cheques by payees should be discouraged as it promotes possibility of corrupt practices.



## **5.5 Internal Cheque Payments & Payroll**

Internal payments include payments to employees and frequent consultants. These may take any of the following forms:

- a. Advances (salary, travel, expense, etc.)
- b. Reimbursement of expenses incurred on CHIP business
- c. Payment for fees (other than monthly salaries)
- d. Monthly salaries.

A Request for Advance shall be made in travel authorization form duly approved by head of section or by CEO in case of head of sections and executive secretary. Upon receipt of an approved Request for Advance, Finance Section will prepare a cheque for payment. The same process for signing the cheque shall be followed as applicable to all cheque payments. Cheques for advances may not be crossed if the payee requests so. However in that case, the payee must sign the payment voucher as receipt.

Payment for re-imbusement of expenses incurred by an employee shall follow the same procedure as applicable to outside invoices. A payment voucher shall be prepared to which duly checked and verified support documents shall be attached. Payment Voucher shall be sent to CEO for approval and only after his approval will Finance Section prepare a cheque. The same process for signing the cheque shall be followed as applicable to all cheque payments. Cheques for reimbursements may not be crossed if the payee requests so. However in that case, the payee must sign the payment voucher as receipt.

Payment for fees or special services rendered by an employee or a frequent consultant shall be made following the same procedure as applicable to outside invoices. A payment voucher shall be prepared to which duly checked and verified support documents shall be attached. Payment Voucher shall be sent to CEO for approval and only after her approval will Finance Section prepare a cheque. The same process for signing the cheque shall be followed as applicable to all cheque payments. Cheques for these payments may not be crossed if the payee requests so. However in that case, the payee must sign the payment voucher as receipt.

All salary payments shall be made through bank transfer:

- a. A salary computation sheet (showing gross amount payable, deductions, net amount payable for each employee, and total payment, etc.) shall be prepared by the Finance Section. It shall be checked and verified by Manager Finance and sent to CEO for approval, along with all support documents.
- b. Upon receipt of approved salary computation sheet, Finance Section shall prepare a Payment Voucher and an Instruction Letter to the Bank. These two documents shall be checked and approved in the same manner as any other cheque payment.
- c. Bank Instruction Letter for direct credit to employees' accounts shall be hand delivered to bank. The bank should be asked to sign a copy of this letter as evidence and protection against errors.

## **5.6 Payments Out of Petty Cash**

**5.6.1** A petty cash float of a suitable amount (to be decided by CEO) shall be maintained at each location where CHIP operates. This float shall be operated on an imprest system, i.e. the amount of float shall be treated as Cash in Hand at all times, and only re-imburements will be accounted for as payments and recorded in the main cash book. A separate petty cash book will be maintained for each petty cash float.

- 5.6.2** Payment for minor purchases (like office tea supplies, stationery items, etc.), and small cash advance to employees, up to a maximum of Rs 10,000/- per payment, may be made out of petty cash. Payment made on DSA may exceed the maximum limit of PKR 10,000/- and will be paid as per DSA policy. However this amount can be increased subject to inflation.
- 5.6.3** A Petty Cash Voucher or acknowledgment receipt shall be prepared for each payment. It shall be checked and verified by Coordinator Finance, and sent for approval. Approval for PCV will be granted by CEO.
- 5.6.4** A duly approved PCV will be sent to the designated Petty Cashier who will pay out the cash and obtain payee's signature. In case, payment is made for a purchase for which a cash memo or receipt is available, that should be attached to the PCV.
- 5.6.5** When the float reaches 20% of its total limit, petty cash book shall be closed and a reimbursement payment voucher prepared. The Payment Voucher shall be for the exact amount expended in the closed period. The procedure for processing reimbursement is same as for any cheque payment. It is from this cheque payment voucher that details of payment will go to the ledger of CHIP.
- 5.6.6** At least once in a month, the Coordinator Procurement shall carry out a surprise count of petty cash to check if the amount of cash held and paid petty cash voucher awaiting reimbursement are equal to the imprest amount. A formal report of this count shall be prepared and made available for checking by the Manager Finance or any other designated person.

## **5.7** *Payroll Taxes*

At the time of salary disbursement, income tax will be deducted as per Rule 45(1) of Income Tax Ordinance, 2001. Thereafter, due income tax will be deposited into the Government treasury through tax challan. The deducted amount of income tax is to be deposited within 15 days from the date of deduction thereof. A statement of tax deducted out of staff payroll will need to be prepared on quarterly basis under Rules 51 and 51A of the Income Tax Ordinance, 2001 and filed with Income Tax Department within 15 days from the close of the each quarter. Further, a statement of tax deducted over the year would be prepared under rules 51 and 51A and filed with Income Tax Department within two months from the date of closing of Tax Year. The parameters for computation of withholding income tax from payroll will be reviewed on a regular basis, especially after the announcement of the Federal Budget and modification(s) shall be incorporated on an immediate basis.

## **6.** *Revenue Management*

### **6.1** *Delivery of Goods and Services*

The rendering of services shall always be documented through signed agreement between CHIP and client duly signed by CEO on behalf of CHIP.

### **6.2** *Invoicing*

As soon as any particular service is rendered the copy of completion of relevant activity shall be sent to finance section by the programme persons. Finance section shall issue an invoice mentioning CHIP reference, nature of services rendered, amount, date, mode of payment etc. The invoice shall be signed by the relevant finance person whereas the cover letter shall be signed by the Manager Finance. The copy of the invoice shall be used as supporting document for recognizing revenue.

### **6.3 Credit to Clients**

For all assignments a mobilization/1<sup>st</sup> advance shall be taken from clients. Later on all the invoices shall be sent after completion of specified activity. However for clients with good credit history or good background, it is possible to render any service and then bill them for payment of services. CEO is the authority to take such a decision, if such a decision is taken it shall be reflected in the agreement.

### **6.4 Monitoring of Receivables**

It is the overall responsibility of Manager Finance and the prime responsibility of Coordinator Finance to keep a track record of receivables and especially monitoring and follow up of overdue receivables.

As part of an objective approach, all overdue receivables who fail to settle their debt either through phone calls or reminder letters, shall be offered concessions / relief either through rescheduling the payment deadlines or by waiver of a part of receivable. These decisions will only be taken by the Manager Finance in consultation with the CEO.

Receivables, that become overdue by one year, may be recommended for write off by the CEO. A detailed report for every such case shall be submitted before the Board for final approval of write off.

### **6.5 Receipts and Tax Deducted by Clients**

Control shall be established over all cash and cheque receipts which would be deposited promptly in the respective project's bank account or organization's own bank account. The Finance Section shall issue official receipt as an evidence of acknowledging of the receipt of funds. The withholding income tax, deducted by buyers out of our payments under Income Tax Ordinance, 2001, shall be monitored and recorded appropriately. The tax challan evidencing deposit of such income tax shall be obtained from the buyers within 10 days from the date of receipt of payment there from. This challan should be accounted for at the time of filing tax returns with the Income Tax Authorities.

## **7. Fixed Assets and Procurements**

### **7.1 Budget**

Fixed assets shall always be procured if the budget is available in the relevant project or from CHIP Own Funds, however in case of any emergent need of procuring any asset without availability of budget, CEO shall decide for such procurement out of CHIP funds.

### **7.2 Purchase Requisition Form**

All the purchases of fixed asset nature shall be duly approved through purchase requisition form given in admin manual. Manager Finance in case of general office equipment items and individual employee for items being used by him/her submits Purchase Requisition form to CEO for inventory item to be added / upgraded.

### **7.3 Quotation & Approval**

Specifications of item to be purchased are drawn and finalized with the help of input from different sources (e.g. employees, users etc). CHIP purchases equipment from authorized dealers ensuring after sales service plus spare availability. Quotations are called from authorized dealers of the related item if the purchase is above PKR 20,000-. If necessary, demonstration is also requested. However, quotations may not be called, if material is being purchased from the seller whom CHIP has long term and satisfied business relations with reasonable price, fine quality and after sale services. Price plays an important role but

it is not a deciding factor. After the purchase and receipt of items all documents related to the purchase of item e.g. quotations, order, correspondence with IC, delivery receipt, etc. are filed in a separate plastic folder for office record and auditors.

<b>Value of Purchase / Service request</b>	<b>Approval Required from</b>
Up to PKR 5,000/-	Field Coordinator
Up to PKR 10,000/-	Manager Finance
Between PKR 10,001 to PKR 1,000,000	CEO
Above Rs. 1,000,001	Board of Directors

#### **7.4 Purchase Order**

A Purchase Order showing name of supplier, agreed amount, specifications, attached clauses, payment terms and delivery date etc shall be issued duly signed by the approving authority.

#### **7.5 Recognition & Capitalization Policy**

Minor renewals replacements, maintenance and repairs less than Rs. 5,000/- are charged as expense, as and when they are incurred, while major renewals and improvements are capitalized. Hence, an item shall be recognized as fixed assets only when:

- It is probable that future economic benefit will flow to the organization as a result of its acquisition;
- The cost per individual item exceeds Rs. 5,000; and
- Item has useful life of more than one year.

Cost of an asset includes purchase price, installation cost, import duties, all non-refundable Governmental taxes and cost of bringing the asset into working condition. All trade discounts and rebates are deducted in arriving the purchase price. Any subsequent expenditure on non-expendable items, which extend the useful lives, enhance the capacity or substantially reduce the operating cost, shall also be capitalized.

#### **7.6 Listing & Physical Identification of Fixed Assets**

At the time of acquisition, all assets shall bear exclusive identification of reference. This identification mark should be tagged and entered into Fixed Assets Register. Relevant code shall be assigned which shall also identify the donor. A register/detail in excel sheet shall be maintained for all fixed assets showing:

- Description & cost of each item
- Date of acquisition
- Location of asset
- Item Code
- Rate of depreciation and per year charge
- Accumulated depreciation

Fixed assets records must be reconciled with General Ledger on a regular basis. The finance personnel shall take a physical inventory of all fixed assets at least annually to ensure the completeness and accuracy of the records. The inventory of assets on hand shall then be compared to actual. All the differences will need to be resolved by a responsible staff member.

### **7.7 Insurance of Fixed Assets**

A comprehensive insurance will be made from a reputable insurance company as per following policy:

Vehicles:	Comprehensive at Depreciated Price
Equipment & Furniture:	Fire & Theft at Depreciated Price at CHIP Premises
Laptops:	Comprehensive (Any Where)

The insurance expense shall be charged to donors according to common cost policy.

### **7.8 Depreciation & Useful Life**

Depreciation is charged to income from the year of acquisition, and no depreciation is charged in the year of disposal. Depreciation rates reflect the useful lives of the assets. The annual depreciation rates, applied on a straight-line basis, are as follows:

Building	10%
Soft Furnishing	25%
Furniture and Fixture	15%
Computer Equipment & Mobile Phones	33.33%
Motor Vehicles	20%

The rates can be changed as and when income tax department declare any change. The useful life of an asset will be estimated after consideration of following factors:

- Expected physical wear and tear; and
- Technological obsolescence

### **7.9 Disposal of Assets**

Boarding / disposal of inventory items may be made if:

- i) the useful life of inventory item (s) has been finished and its replacement is required.
- ii) the inventory item (s) has become redundant
- iii) the inventory item (s) has become obsolete
- iv) at the time of closure of project and inventory is no more required

In first three cases, applying to vehicles or equipment with market value of more than Rs. 50,000/-, the fair market price would be assessed through invitation of closed / sealed quotations or at the book value, first right for its purchase lies with CHIP employees and thereafter the inventory can be sold to any successful bidder. For inventory item beyond repairable / obsolete or CHIP usage, may be sold to the employee or outsider by assessing the fair market value by CHIP for which offer letter should be obtained from the open market and shall determine the minimum price.

## **8. Book Of Accounts And Periodic Reports**

### **8.1. Details of Books and Records**

Since CHIP has a computerized accounting system, under which the transactions are recorded in ACCPAC accounting software, the following accounting record / books of accounts are maintained at CHIP:

- A. Sets of completed vouchers.
- B. Monthly Cash Report

- C. Quarterly General Ledger Listing
- D. Quarterly Trial Balance
- E. Quarterly Income / Expenditure Reports & Balance Sheet
- F. Payroll sheets attached with monthly vouchers.
- G. Monthly bank statements & bank reconciliation statements.
- H. Lease / rental agreement of office premises.
- I. Vehicle log books, duly signed by the Coordinator Finance
- J. Personal files of the employee.
- K. Inventory list

**8.2 The Income Statements**

At the end of each quarter, CHIP shall prepare four income statements, as follows:

- a. Income Statement for Projects Wing
- b. Overall Income Statement of CHIP.

8.2.1 Income Statement for Projects Wing

This Income Statement should cover Projects Wing of CHIP and show:

- a. The revenue received from donors. The revenue line will have several sub-lines, one for each project being handled by CHIP on behalf of a donor agency.
- b. Expenses or disbursements specifically made to projects covered by the revenue included in the income statement. The expense line should also have the same number of sub-lines as for the revenue line, each expense line should show the total expenses disbursed to the project covered by the corresponding income line. The format of Income Statement for Projects Wing:

	Rs.	Rs.
Revenue		
Project A	XXX	
Project B	XXX	
Project C	XXX	
Total Revenue		XXXX
Expenditure		
Project A	XXX	
Project B	XXX	
Project C	XXX	
Total Expenditure		XXXX
Gross Income (or Contribution) from Projects		0

Theoretically, this Wing will not produce a gross income because receipts from donors will almost always equal the disbursements. However, it is possible that in future some arrangements may be made with some donors where receipts from donors for a part of administrative fee for CHIP. In that case, this Wing will generate a gross income (or contribution). Although financial reporting to donors is made as per individual agreements with different donors/partners internal financial reports are produced for monitoring and supervision of the projects under implementation.

8.2.2 Overall Income Statement of CHIP

8.2.2.1 Total Revenue

The Total Income Statement for CHIP should have four lines of revenue:

- a. Gross Income from Projects

- b. Other Incomes like GSR, Interest Income, rental from sub-lease and consultancies etc.

Then, of course there should be total revenue line.

#### 8.2.2.2 Expenditure

The Statement should have two main overhead sub-sections. The first section should be headed as "Institutional Strengthening". Under this heading should be shown all those expenses that relate to strengthening (rather than running) the organization. Examples include leaflets, staff development, etc.). The second section should be headed as "Operational Overheads" which can be sub-divided into administration and financial sections. These sections will include expenses related to running CHIP on day to day basis.

#### 8.2.2.3 Format of Income Statement

The format for Overall Income Statement of CHIP shall be as follows:

	Rs	Rs	Rs
<b>Revenue</b>			
Gross Income from Projects Wing		XXX	
Other Incomes		XXX	
Total Income			XXXX
<b>Less Expenditure</b>			
<b>Institutional Strengthening Overheads</b>			
Expense A	XX		
Expense B	XX		
Expense C	XX		
Total		XXX	
<b>Operational Overheads</b>			
Salaries	XX		
Rent, rates and taxes	XX		
Communication costs	XX		
Etc.	XX		
Etc.	XX		
Total	XXX		
<b>TOTAL EXPENDITURE</b>			XXXX
Net Income to Accumulated Fund			XXXX

Details of other income, or expenses, can be given in Notes to the Accounts

### 8.3 Balance Sheet

Balance Sheet of CHIP may be prepared quarterly, in a format prescribed for companies, showing the totals of each of the following:

- a. CHIP Accumulated Fund
- b. Donors Payables
- c. Long Term Liabilities
- d. Current Liabilities
- e. Deferred Liabilities
- f. Total Liabilities and Accumulated Fund
- g. Fixed Assets, at cost less depreciation
- h. Current Assets (including investments)
- i. Other Assets (including non-tangible assets and capitalized costs)
- j. Total Assets

#### **8.4 External or Statutory Audit of CHIP Accounts**

This should be carried out in accordance with legal requirements prescribed by appropriate section of Companies Ordinance. CHIP's general body shall appoint external auditors who shall carry out the audit, meeting all the relevant regulatory requirements. The external auditors' report shall be presented to general body after review by the Board of Directors.

#### **8.5 Internal Audit**

**8.5.1** CHIP shall strive to set up its own internal audit section whenever feasible. In the meanwhile, an internal auditor shall be assigned internal checking responsibilities to ensure reliability and accuracy of all records.

**8.5.2** The basic principle of internal check (namely, each task should be divided into pieces and each piece of work should be performed by a different employee so as to ensure cross checking with a view to detect errors and deliberate mistakes) must be applied. Based on the current staff strength of Finance Section, for detailed division of responsibilities, reference is made to 2.6 Segregation of Duties and finance Section's staff Job Descriptions.

#### **8.6 Monitoring by Board**

The Manager Finance will keep a close liaison with the Company Secretary for financial affairs of the organization. All internal and external reports generated by the Finance Section would be sent to the Board for its review, once a year. The Board shall hold deliberations and discussions over such reports and suggest modifications / amendments / rectifications. The details of business conducted during meeting of the Board shall be duly recorded and its minutes shall be circulated by the CEO to the Board Members.

### **9 Internal Controls**

CHIP is concerned with managing internal risks on day-to-day basis. This can be achieved with a series of controls, checks and balances, which will avoid losses and detect errors and omissions in the accounting records. These controls will play a very vital role in protecting all those who handle the financial affairs of the organization as they remove any suspicion of, or temptation to, dishonesty. The following different categories will be ensured in context to internal controls:

- Delegated authority
- Physical controls
- Reconciliations
- Payroll
- Custody of Cheque books and other banking instruments
- Segregation of duties
- Cancellation of Invoices/bills

#### **9.1 Delegated Authority**

The Board of Directors will delegate authority through the Chief Executive Officer for the day-to-day operations of the organization. The Chief Executive Officer will, therefore, further delegate authority to members of the managing staff to relieve the load and to ensure smooth operation during his/her absence. In case of CEO's absence, Manager Programmes will be responsible for implementation of all programme activities; however, Manager Finance will be responsible for all financial and administrative operations. The financial approvals shall stay with the authorized signatories. In case of any other nomination except above two positions, CEO will



nominate the key persons and his/her responsibilities in written and his/her nomination will be shared with all other head office and field office(s) staff members.

## **9.2 Physical Verification**

**9.2.1 Fixed Asset/Inventory:** CHIP would have an essential element of physical verification of Internal Control Policy. The Manager Finance will be a key person to ensure the verification of tangible assets with the records. At the end of every financial year, each office inventory and fixed assets will be reconciled with the Fixed Asset Register, which should be reviewed by Manager Finance on sample basis. The one report of reconciliation of physical verification will also be shared with the CEO in a formal meeting. In case of any theft or loss or misuse of office belongings, the report will be immediately shared with the CEO for further action.

### **9.2.2 Cash:**

On each Friday of the week, the petty cash will be physically verified with the available records. Manager Finance will be the responsible and this sheet will be kept for record purposes. Surprise checks must be done at least once a month.

## **9.3 Reconciliation**

CHIP will ensure by verifying accounting records that there are no errors or omissions that have so far gone undetected. Records that would be reconciled at regular intervals are:

- Bank Book
- Petty Cash Book

Once the records have been successfully reconciled, the reconciliation statement must be passed on to be independently checked with the source records by Manager Finance.

## **9.4 Payroll**

The payroll preparation process will be started on 25<sup>th</sup> of every month. HR Section will submit leavers and joiners report with the supporting documents including resignations, notices or agreements, appointment letters etc to the finance section.

Coordinator Finance will prepare payroll sheets on the basis of this report and available records of employees. The payroll sheets will be reviewed by the Manager Finance and approved by CEO. The salary letters or cheques will be prepared on the basis of approved salary sheets and these will be disbursed by the Admin and Account Assistant. The salary slips, reviewed by Manager Finance, will be disbursed not later than 10<sup>th</sup> of each month. The salary slip would be printed in the manner that is easy to comprehend by the employee with disability. The employee with disability would be facilitated to open bank account for salary which offers disabled friendly services.

## **9.5 Custody of Cheque books and other banking instruments**

Manager Finance will be responsible for safekeeping, custody and records of all instruments related to bank operations, including but not limited to, unused cheques, debit authorization forms, etc. A sheet will be maintained for all such documents, with one page assigned to each instrument. These instruments will be kept in a safe placed in a locked store. The safe will be operated by two keys, CEO and Manager Finance will keep one key each. On the basis of Cheque Book Request by Coordinator Finance, the keys will be issued from Manager Finance and a nominee from CEO or CEO him/herself. Locker will jointly be operated issuance of required cheque books. After preparation of cheques, the statement called, "Detail of Cheque

Books” will be prepared by Coordinator Finance including information of used, unused and balance cheque book leaves. CEO or nominee of CEO will be responsible for the verification of this sheet before keeping the cheque books into locker.

#### **9.6 Segregation of duties**

After approval of the payment, bank payment voucher will be prepared by Coordinator Finance, checked/verified by Manager Finance and approved by CEO. After approval cheque will be prepared and sent to appropriate cheque signatories for signatures.

#### **9.7 Cancellation of Invoices/bills**

A stamp of cancellation will be affixed on every bill/invoice and supporting documents after disbursement of cheque for prevention of their re-use.

#### **9.8 Gift/ Donation**

CHIP does not allow to any managerial level or employees who involved in procurement process to accept any kind of gift or donation in monetary or in-kind. In case of any donation or gift from any vendor by courier or similar means of communication, that staff member will immediately handover these gift/donation to his/her immediate supervisor and also inform in writing/email. Management will decide the further use/disposal of such gift/donations.

### **10 Shared Costs & Overheads**

#### **10.1 Overhead**

Overhead refers to those costs which cannot be allocated to a specific activity or project but which are general in nature. Also referred as Indirect costs. CHIP will charge the indirect costs to the projects as per following criteria:

##### **10.1.1 Salaries & Benefits**

Salaries will be charged to the projects on the basis of time sheets. Each staff will be responsible for preparation of time sheet on monthly/ periodical basis. This time sheet will be verified by his/her immediate supervisor and reviewed by HR Section. This reviewed time sheet will be approved by CEO. (Standard template for time sheet is attached)

##### **10.1.2 Office Rent**

Head Office Building is designed into various work stations. The Office Rent will be charged on the following formula:

*Number of Project Staff Members/Total Number of employees X Rent as per Market Rate*  
Finance Section will be responsible for making the accounting entries on quarterly basis.\

##### **10.1.3 Indirect Costs**

Indirect costs such as utilities, communication, postage & courier, internet, security services, general repair and maintenance etc will be charged as per number of staff members placed at Head Office in particular month. (Template is attached)

##### **10.1.4 Vehicle POL Charging**

The vehicle expenses including POL, repair & maintenance, services charges etc will be charged on the basis of actual mileage @ Rs 18/- per kilometer. The actual mileage will be calculated on the basis of log book(s) maintained for each vehicle.

### **11. Fraud**

Although adequate internal control measures are in place in order to avoid any fraud, never the less in case of any reporting of fraud refers to financial embezzlement or theft of capital item

minimum amount of PKR 1000/- or any important legal document of the company such as original ownership papers of assets, partnership agreements, cheque books and any personnel file etc. Any fraud identified in the field office/community level and or partner level will be immediately reported to manager finance who will immediately inform CEO. CEO will form an inquiry committee to investigate the matter and prepare a fact-finding report within 24 hours. The composition of inquiry committee may have senior managers or any reliable field staff as well depending on the volume of fraud. In the event of any fraud at the head office level, the information will be immediately shared with the CEO who will immediately inform company secretary and Chairperson of Board of Directors. An inquiry committee will be formed to prepare a fact-finding report. There will be zero tolerance if fraud will be confirmed. The following measures can be taken in case of confirmation of the fraud:

- Termination of the staff employment agreement
- First information report in the respective police station
- Legal proceedings in the Pakistani Court.

The inquiry committee will try to recover the principle amount or capital asset or legal document through adopting any of the above measures.

## **12. Budget**

Budget is an estimation of the revenue and expenses over a specified future period of time. It is an itemized summary of estimated or intended expenditures for a given period. CHIP will prepare mainly two types of budgets:

1. Annual organizational budget
2. Project budgets on need basis

### **12.1 Annual Organizational Budget**

Annual budget will be prepared by the finance section. Manager Finance will be responsible for preparation of the annual budget in close coordination of the finance & administration & procurement, HR sections. Budget year will be financial year i.e. July to June. Budget will comprised of two main components:

- a. Revenue receipts
  - b. Revenue expenses
- 
- a. Revenues Receipts Will Be Comprised Of Mainly Following Heads  
Overheads recovery, office rental income, vehicle income (rental and charging), interest income, operational cost sharing/allocation etc.
  - b. Revenues expenses will be comprised of mainly following heads:  
Staff salaries and benefits, utilities (electricity, gas and water) including generator fuel, communication charges (landline telephone, mobile phone, fax, internet), postage and courier, printing and stationery, repair, maintenance and accessibility of office building repair and maintenance (vehicle), security services keeping in mind requirements for employee with disability, office supplies, legal fee, board meetings etc. The budget may include costs for meeting any disability specific requirements such as purchasing of a gadget, equipment, software, audio/visual aid etc. Monthly budget realization sheet will be prepared and submitted to C.E.O. and variances be discussed and corrective measures be suggested. Budget may be revised on six monthly bases if required.

## 12.2 Project Budgets

Project budgets will be prepared by the Finance Section in close coordination with Programme Section. Manager Finance will take the lead in preparation of the project budgets. Chief Executive Officer will guide/supervise the whole process. Manager Programmes, relevant Project Coordinator, Field Team will support the process of preparation of the budget. Suggestion/input from relevant field office may be taken through email, if too much details are involved, depending upon the volume and duration of the budget field teams may be called at Head Office for a meeting to discuss the details. On the basis of information/details received through emails/meeting an initial budget will be prepared. Budget will be finalized as per available funds/budget limit. Budget should be as detailed as possible with justifications and break up of costs matched against each activity. Budget will be prepared as per format given below. However if any partner/donor has specific requirement regarding budget format then the format provided by the partner/donor will be followed. After approval of the budget, programme section of the budget will be shared with Programme section//relevant Project Coordinator for implementation and monitoring of the activities.

Project Title
Project Time frame
Budget Currency if foreign latest exchange rate

Reference	Budget Description	Unit Cost	Total Units	Total Cost	Budget Notes
1	Project Activities				
1.1					
1.2					
2	Personnel				
	Full Costs				
2.1					
2.2					
	Partial Costs				
3	Travel Transportation				
3.1					
3.2					
4	Office Operations				
4.1	Rent				
4.2	Utilities				
4.3	Communications				
4.4	Stationary				
5	Monitoring				
	Regular monitoring				
	Mid Term Review				
	Evaluation				
	Audit				
6	Staff Capacity Building				
7	Overheads				

### **13. Endowment Fund**

#### **13.1 Need For CHIP Endowment Fund**

CHIP is to establish an Endowment Fund for the purpose of its financial sustainability. The overall objectives of the fund are:

- To meet CHIP' financial obligations (fixed or operating cost) principally from return on investment of endowment fund, in case regular operating income is not sufficient to cover these financial obligations.
- To increase the Endowment Fund with respect to inflation and required growth rate from time to time.
- To provide sufficient bank guarantees to potential project partners, as and when required.

#### **13.2 Means of Building of Endowment Fund**

CHIP surplus fund, defined as the operating and capital expenses less revenue derived from the sources mentioned below, can be credited to the Endowment Fund in full or part thereof as per the decision of Board of Directors on an annual basis:

- Amount given as endowment/corpus fund directly by donors including any matching grant.
- Contribution towards operating/core cost of CHIP and fixed assets by project partners.
- Surplus / Profit on training and consulting assignments conducted by CHIP staff (as per detailed mentioned in Policy on Training and Consulting Assignments by CHIP Staff).
- Sale proceeds of fixed assets.
- Revenue/Return on investment of Endowment Fund
- Fixed Fee or overhead charges on implementation of projects for other donors.

#### **13.3 Investments / Placement and Usage of Endowment Funds**

With the approval of CHIP Board of Directors, following options may be considered for possible investments and usage of endowment fund:

- A: Investments in safe, secured and profitable ventures
- B: Investment in saving/investing schemes of scheduled banks and financial institutions approved by State Bank of Pakistan
- C: Risk free real estate investments for own () use, rental or capital gain purpose.
- D: Investments in bonds and securities introduced/backed by Government of Pakistan
- E: Any other safe and risk free investment opportunity identified and approved by board of directors.
- F: The return on investment (Profits) can be used to meet revenue expenditures as per management's decision.
- G: The Endowment Fund amount can not be used to pay the revenue expenditures of the company.

#### **13.4 Currency of Endowment Fund**

The Endowment Fund shall be established in local Pak Rupees currency. However the fund can have investments/balances in other international currencies of repute e-g, EURO, GBP, USD etc. and these balances would be translated into Pak Rupees to show the Fund balance at the year end, in accordance with international accounting standards.

### **14. Conflict of Interest**

Any position working on a full time or part time basis in CHIP is not authorized to seek any personal benefits from any procurement of goods or services. All procurements would be done through a laid down procedure as described in company's approved policy documents. All employees working full time or part time with CHIP must read, complete, sign and return conflict of interest declaration form attached in Annex 6 in Procurement Manual.

**Annex 1: Receipt Voucher (section 5)**

**CHIP Islamabad**  
Receipt

BR  
Received From

Bank

Date

Description

**Cash/Cheque No**

Amount in Words

	Amount
Gross Amount	
Net Amount Paid Rs.	

Received Cheque /DD

Prepared By	Checked by	Approved By

Amount Code	Amount Description	Particulars	Debit	Credit
Unapplied Cash				
		<b>Total</b>		

User



**Annex 3: Payment Voucher (section 5)**

<b>CHIP PAYMENT VOUCHER</b>	
Voucher No.	Mode of Payment
Date of Payment	Cash
Payee	Cheque No
	Bank Transfer DA No
	Bank

DETAILS OF PAYMENT									
Reason / Narrative	File Ref	Debit Account No.						Amount	
Gross Payable									
Deductions									
Net Paid / Cr. Account No.									

Net Amount Payable: Rs.(in words)	
--------------------------------------	--

PV Prepared by	PV Checked by	Payment Approved by
Cheque Prepared by	Cheque Signed by	Cheque Signed by

RECEIPT BY PAYEE OR HIS REPRESENTATIVE	
Payee or Rep's Name	
Signature	
Date	



**Annex 4: Salary Advance Form (section 5)**

<p><b>CHIP</b> <b>Request For an Advance</b></p>	
<i>Employee Details</i>	<i>Nature of Advance</i>
Name	Travel Advance
Designation	Salary Advance
Any Disability    Yes    No	Type of Disability
Department	Expense Advance
Net Monthly Salary	Other

Details of Amount Requested	Rs	
	Rs	
	Rs	
	Rs	
	Total Rs	
Proposed Recovery Mode		
Employee's Signature		
Date		

<b>Processing</b>	
Details Checked by	
Approved Amount	Rs.
Approved Mode of Recovery	
Request Approved By	
Signature	
Date	

This form should be completed in triplicate after approval.

- (a) The original should be attached to the payment Voucher.
- (b) A copy should go to the personal file of employment/payroll section.
- (c) A copy should be given to the employee.

**Annex 5: Temporary Advance Form (section 5)**

**CIVIL SOCIETY HID PROGRAMME  
TEMPORARY CASH ADVANCE VOUCHER**

**Payee:**

Received From CHIP, Cash amounting to Rs.....

Rupees.....

On account of .....

Date: .....

**Payee Name, Designation and any Disability:-----CHIP**

**Signature:-----**





**Annex 8: Opening of New Account in Chart of Account (section 2.3)**

**CHIP**

**Authorization for opening of new COA**

New budget is attached

Yes

No

If no, explain

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Requested by \_\_\_\_\_

Authorized by \_\_\_\_\_

**Annex 9: Petty Cash Voucher (section 5.6)**

<b>CHIP</b>									
<b>PETTY CASH VOUCHER</b>									
PAYEE							PCV NO.		
DETAILS OF PAYMENT				DEBIT ACCOUNT NO.				Rs	
TOTAL									
TOTAL AMOUNT IN WORDS		Rs							
VOUCHER PREPARED BY			PAYMENT APPROVED BY				PAYEE'S SIGNATURE		
Date			Date				Date		







**Annex 12: Bank Reconciliation (section 9)**

Bank Detail: Bank name, Account Type and Account No. (PKR)

Bank Statement		
Bank Statement Sheet Number		

Description	Amount	Subsequent Clearance
<b>A. Balance as on statement</b>		
Less Payment in cashbook, not on statement		
<b>Cheque #.</b>	<b>Issued date</b>	<b>Issued to</b>
<b>B. Total Deduction</b>		
Plus receipts in cashbook, not on cash statement		
<b>Receipt #.</b>	<b>Receipt date</b>	<b>Receipt from</b>
<b>C. Total addition</b>		
Less receipts on statement, not in cashbook		
<b>D. Total Deduction</b>		
Plus payments on statement, not in cashbook		
<b>Bank Charges</b>		
<b>Withholding Tax</b>		
<b>E. Total addition</b>		
<b>F. Balance in cashbook (A+B+C+D+E+F)</b>		

Reconciliation performed by: \_\_\_\_\_  
 Name Signature Date

Reconciliation checked by: \_\_\_\_\_  
 Name Signature Date



**Annex 14: Office Rent Calculation (section 10)**

CHIP  
 Shared Cost  
 For the Month of \_\_\_\_\_

Description	No of Staff	Cost	Project		
			Staff #	%	Cost
<b>Designation</b>					
				100%	-
			1	100%	

**Annex 15: Vehicle Expense Calculation Sheet (section 10)**

CHIP  
Vehicle POL

Project	KM Covered	Amount	Project Name			

