

**THE UNITED REPUBLIC OF TANZANIA**



**WATER SECTOR DEVELOPMENT PROGRAMME (WSDP)**

**PROGRAMME IMPLEMENTATION MANUAL**

**VOLUME 3**

**FINANCIAL MANAGEMENT ADDENDUM**

**OCTOBER 2006**

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## Abbreviations

BOT	Bank of Tanzania
BWO	Basin Water Office
CA	Chief Accountant
CAG	Controller and Auditor General
CPO	Central Payments Office
DDP	District Development Plan
DP	Development Partners
DPP	Director of Policy and Planning
GFS	Government Financial Statistics
GoT	Government of the United Republic of Tanzania
IFMS	Integrated Financial Management System
LGAs	Local Government Authorities
LPO	Local Purchase Order
MKUKUTA	Mpango wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
MoW	Ministry of Water
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTB	Ministerial Tender Board
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NGO	Non Governmental Organization
PER	Public Expenditure Review
PMS	Performance Management System
PMU	Procurement Management Unit
PPRA	Public Procurement Regulatory Authority
PS	Permanent Secretary
PPU	Planning and Policy Unit
PV	Payment Voucher
RFP	Request for Proposal
RPO	Request for Purchase Order
SSP	Sector Strategic Plan

TFN	Treasury Forms Number
TT	Telegraphic Transfer
TZS	Tanzania Shillings
USD	United States Dollar
UWSA	Urban Water Authority
WSDP	Water Sector Development Programme
WSWGFC	Water Sector Working Group Finance Committee

## SECTION 1 - INTRODUCTION

### 1.1 Overview

The main objective of the Water Sector Development Programme (WSDP) is to develop a sound water resources management as well as access to improved and sustained water and sanitation services for rural and urban communities. The programme shall be implemented at different levels, starting from the Ministerial level, Regional level, Local Government Authority and Executive Agency levels. Other stakeholders, such as the Private Sector and Non Governmental Organisations shall also be involved.

The programme's accounting system will operate within the general framework of the Government accounting system, which uses standard charts of accounts including planning, budgeting, reporting and auditing, now largely implemented under the computerised system known as *Epicor*. Overall accountability in this regard rests with the Ministry of Finance (MoF) who is mandated to issue circulars, directives and guidelines, following the Public Finance Act. No. 6. of 2001 and Public Procurement Act of 2004, with regard to all accounting and financial reporting requirements in the Government, of which the Programme (under the auspices of MoW) is part.

At Government level, the accounts will operate under the overall monitoring and technical support of the MoW. Likewise, in the Basin Water Offices (BWOs), Executive Agencies (EAs) and Urban Water Authorities (UWSAs), the accounts will be operated under the overall directions of the Boards. In the LGAs the accounts will be operated under the overall direction of the District, Town, Municipal and City Councils, in line with the **Local Government Authority Financial Memorandum** of 1997.

All Accounting Officers are required to provide an efficient and effective service at all times in accordance with laws, regulations and instructions currently in place including the ones in this document. Failure to do so renders officers, personally and pecuniary liable for the restitution of any loss incurred by the Government and may result in disciplinary action being taken.

The accounting records, registers and reports described in this Framework are therefore, intended to serve as primary records for later input into the overall Government accounting system. However, there are accounting matters such as channeling of funds- pertaining to NGOs and communities, for example - that are not part of the Government accounting system. This framework contains guidance on these institutions as well.

This document is not an accounting manual as such; rather it provides an overview of the programmes financial management mechanism.

## **Feedback**

All users of this document are requested to provide feedback on it, as well as lessons learned from experience to the MoW. This feedback will enable the document to be periodically revised to reflect ongoing developments.

The combined effect of different sections of this Framework is to cater for the following items:

- Development of the memorandum records to capture data under appropriate headings, covering income and expenditure components as well as sub-commitments;
- Development of accounting policies that would assist in designating particular income or expenditure groups under appropriate categories, i.e., whether these items relate to all programme implementing agencies, or the MoW alone, whether recurrent expenditure or capital expenditure, etc.
- Design of the various accounting books, data entry vouchers and specimen formats of supporting documents
- Design of the necessary financial statements and reporting formats that would make it possible for programme management, beneficiary entities and other stakeholders to monitor progress of work and identify situations that would call for corrective measures to be taken to arrest adverse trends;
- Identification and establishment of linkages between financial flows (reported by the accounting system) and physical progress of the programme;

## **1.2 Mode of operations**

WSDP conducts its operations in two broad categories, namely:

- Institutional operations
- Programme operations

### **(i) Institutional operations**

Institutional operations are mainly the operations that sustain WSDP and its capacity to assess the needs and requirements of beneficiaries/communities located in different locations in the country, assist by complementing development initiatives, monitor and report on progress of the assisted programmes, and so on. The institutional coordinating operations are carried out by MoW. The programme works at Basin Water Offices (BWOs), EAs, Urban Water Authorities (UWSAs) and Local Government Authorities (LGAs) levels, which are otherwise concerned with day-to-day operations.

**(ii) Programme operations**

Programme operations are the activities that WSDP carries out for the benefit of targeted entity's programmes, which are the ultimate beneficiaries of WSDP. Earmarked areas for assistance have been categorized as follows:

- Address shortfalls in urban and rural water supply and sanitation facilities
- Improve water resources management, primarily through strengthening of Basin Water Offices (BWOs)
- Strengthen sector institutions and their capacities

## **SECTION 2 – ACCOUNTING POLICIES AND SYSTEMS**

This section provides an overview of the WSDP’s accounting policies and systems. WSDP accounting policies, which are in compliance with the existing government accounting policies, are broad-based assumptions, that form the basis for preparation of financial statements and include specific principles, bases, conventions, rules and practices adopted. This section also describes the accounts structure and codes to be used by the WSDP.

### **2.1 Accounting standards**

WSDP’s accounts are prepared in accordance with the Public Finance Act and Regulations. In particular, financial statements must be prepared and presented in line with International Financial Reporting Standards (IFRS).

### **2.2 Basis of accounting**

WSDP’s financial management arrangements comply with government laws and regulations. In this regard, it is worth drawing attention to the fact that, in accordance with Regulation 53 Sub-Section (1) of the Public Finance Regulations, WSDP’s accounts are maintained on a cash basis, i.e. transactions are recognised only when cash is received or paid. Also, accounts are prepared on a historical cost basis. In line with government policy, the WSDP shall follow commitment accounting. This practice allows the programme’s management to ensure budgetary control by committing funds when a purchase order is issued.

### **2.3 Records management**

WSDP’s management must comply with all instructions issued by the Ministry of Finance with respect to preservation of accounting records. In addition, Reference 137 Sub-Section (2) and Reference 139 Sub-Section (2) of the Public Finance Regulations of 2001, requires that:

- The Treasury securely bundles “all receipts and payment vouchers” lodged by MoW and other institutions
- Books and records of accounts be retained for specified periods. For instance, original payment vouchers and used cheques must be retained for a period of five years.

### **2.4 Accounting policies adopted by implementing agencies**

Accounting policies and procedures used by entities (BWOs, EAs, LGAs and UWSAs) in preparing financial statements comply with the requirements of the Public Finance Act no. 6 of 2001, the Public Procurement Act of 2004 and Treasury circulars derived therefrom and consistent with International Financial Reporting Standards (IFRS).



Financial period commences on 1st July and ends on 30th June. The annual accounts, which cover a period of twelve months, are prepared using a double entry system, on a cash basis of accounting.

## **2.5 Books of accounts maintained by implementing agencies**

For purposes of the WSDP; BWOs, EAs, UWSAs and LGAs are required to maintain the following main books of accounts:

- Control cash book
- Subsidiary ledger for each account
- General ledger,

In addition to the above books of accounts, the following should also be maintained:

- Debtors' and creditors' personal accounts specifying particulars of items supplied and providing reference to transaction documents
- Control accounts for each class of debtor or creditor
- Stores account which is debited with purchases and credited with issues
- Fixed asset register showing all the authority's capital assets and the ways they have been financed.

## **2.6 Use of IFMS**

Treasury Circular No. 1 of 1999/2000, requires all GoT transactions be processed on the Integrated Financial Management System (IFMS). It is in this context that the WSDP uses the following IFMS modules: Budget Input – Active Planner; Exchequer Releases and Warrant Issue; Asset Management; Procurement/Commitment and Expenditure Control; Payment of Creditors/Bank Reconciliation; Development Expenditure Accounting; General Ledger; and Management and Financial Reporting.

## **2.7 Coding of documents**

This sub-section briefly describes the accounts structure and codes to record transactions and generates reports.

The MoF circulates a list of account codes to all WSDP implementation entities. Staff authorising and issuing accounting records (input forms) must ensure that the correct code is entered against each transaction.

## **2.8 Chart of accounts**

The WSDP shall use the government's chart of accounts, which is an organized list of all Government's General Ledger Accounts that:

- Reflects financial responsibility and accountability
- Enables sectoral, geographical and economic analysis of budgets
- Introduces cost centre budgeting and accounting and provides management of WSDP at decentralized level
- Provides a basis for financial data collection, classification, recording and summarizing accounting information for statutory reporting

- Facilitates the integration of WSDP’s recurrent and development activities and provides the separation between recurrent and development expenditure
- Enables direct comparison of WSDP budgets, commitments and actual transactions and facilitates measurement of resources
- Facilitates the production of consistent financial information at different levels of disaggregation
- Is in accordance with the International Monetary Fund – Government Finance Statistics (GFS) Model.

At the central level, the chart of accounts structure comprises four segments and 28 digits. The coding system is flexible. Codes can be added or deleted without affecting the accounting structure. However any amendments to the accounts codes requires the approval of the MoF.

It is noteworthy that segment 1 of the chart of accounts enables users to distinguish between government and development partner funded contributions and associated expenditure.

**Figure : Chart of accounts structure**

<b>Segment 1</b>	<b>Segment 2</b>	<b>Segment 3</b>	<b>Segment 4</b>
12 digit code	6 digit code	4 digit code	6 digit code
Identifies vote, sub-vote, programme and cost center	Specifies performance data	Specifies geographic location	Specifies Government Finance Statistics (GFS) codes
MoW, Warrant Holder, WSDP, Financier (basket fund)	Objectives, target/outputs & activities	Entities (BWOs, EAs, UWSAs, LGAs)	Subjective analysis code

## **2.9 IFMS operators**

IFMS Operators are accounts staff in the MoW and implementing agencies (LGAs, BWOs, EAs, UWSAs), who are responsible for entering transactions onto the IFMS. IFMS Operators must capture timely, accurate and complete transactions onto the system and must ensure that:

- All transaction data is entered into the system on a daily basis. No backlogs should be allowed to build up. Accounts should be balanced daily;
- Bank reconciliations are undertaken, at the very least, on a monthly basis;
- They must never approve any transactions. It is a disciplinary offence for an Operator to do so. Operators should refuse any instruction to approve any transaction, regardless of who issues the instruction, as this represents a serious breach of internal control;
- Databases are backed up on a daily basis and stored securely and that the computer equipment, media and security documentation are properly secured;
- The cleaning and maintenance schedule for the equipment is strictly adhered to and that all faults are reported immediately to the maintenance provider;

Ready stock of consumables is available at all times and that the computer telephone connection is used solely for accessing the Treasury Server.

## **SECTION 3 – FINANCIAL FORECASTING, PLANNING AND BUDGETING**

The purpose of this section is to describe the planning and budgetary procedures that shall be followed in implementing the programme. It also provides the linkage between the WSDP planning and budgeting, and the Government Public Expenditure Review (PER) process.

The MTEF procedure in this section should be used in conjunction with budget guidelines, circulars and instructions issued by the MoF every year and the entities planning guidelines. The WSDP planning and budgeting format uses the existing government system. In order to produce accurate, timely and relevant information there are pre-designed forms issued by the MoF annually. The types of reporting formats are presented in Annex B of this document.

### **3.1 Financial forecasting**

Financial forecasting is carried out at several levels. It begins, at least conceptually, from the lowest level – the beneficiary/user community level. On the basis of those plans - as and when approved at such levels- the forecasts build up to the global figures and likewise till programme-wide set of forecast at the macro level – MoW. It is on the basis of the global numbers that the whole Programme and its sub-programmes are approved as a basis for the WSDP financial status. Though it is impossible to have precise numbers at any level, the effort made to arrive at precise numbers is the essence of the viability of the programme and its subsequent sustainability. Stakeholders at all levels should take this forecasting exercise as the essence of a successful WSDP.

### **3.2 The planning and budgeting procedures at national level**

The planning of WSDP activities at the MoW level is coordinated by the Policy and Planning Unit (PPU) and follows the established procedures for Government planning and budgeting. The key steps in planning and budgeting for WSDP include:

- A PER, review of sector strategic plan and review and amendment of MoW strategic plans developed as part of the Performance Management System (PMS) process. MoW strategic plans must reflect the wider sector goals and objectives
- MoW prepare three-year work plans for WSDP
- PPU of MoW consolidates the work plans. Again, these work plans mirror MoWs individual operational plans under the PMS process The WS Working Group Finance Committee reviews Development Partners’ and GoT’s commitments
- The WSDP work plan is incorporated in MoWs’ MTEFs

It should be noted that the Programme as part of the Central Government system, and that the administration at lower levels, shall have their own operational budgets assembled and passed as part of the global national budget

### **3.3 The planning and budgeting procedures at lower level**

In December of each year, PORALG prepares and issues circular letters to all LGAs to initiate planning and budgeting for the coming year. After receiving the guidelines, the LGAs translate them into simple language and dispatch them to the village Council. As in the case of district and urban councils the planning and budgeting process at the Mtaa/Village level is elaborately described in various documents. These guidelines, therefore, bring together various procedures in use at LGAs for planning of development projects at the village/mtaa level and seek to harmonize Governments established procedures with the needs of the LGCDG system to ensure that one system is in operation.

### **3.4 Preparation of procurement plans**

A global procurement plan covering the entire programme period will be prepared and submitted to WSDP Development Partners. This plan will show specific procurement plan for 24 months up to June 2008. showing entire packages and (for each package) its estimated cost, procurement method and processing times until completion. For sub-programmes to be implemented by BWOs, EAs, UWSAs and LGAs, no global or annual procurement plans will be prepared, as these will generate sub-programmes from time to time during the programme and will include a procurement schedule for completing the sub-programme. Thereafter the procurement plan will be updated accordingly.

## **SECTION 4 - MECHANISM FOR FLOW OF FUNDS**

This section describes the policies, regulations and procedures for receipt of programme funds from various sources. It also covers the necessary arrangements for channeling of funds to implementing agencies and the accounting procedures for requesting and receiving replenishments.

Several institutions will work together in implementing the programme – these procedures are designed to control and record funds flows related to each institution.

### **4.1 WSDP holding account**

Prior to the commencement of the programme, a USD holding account at the Bank of Tanzania (BOT) will be opened. MoW will have to submit a letter of opening the WSDP Holding Account to the MoF. The account will be operated by the MoF. This written request will be supported by a signed copy of the programme's MoU in respect of the Water Sector Basket Fund. The MoF thereafter will request the Foreign Accounts Department at the BOT to open an account.

Once opened, the BOT will provide account details such as the, account number, branch sort code, swift code etc. in writing to the MoF and MoW. The MoW will inform the development partners on the same.

### **4.2 Development partners' pledges to the WSDP**

The Water Sector Working Group (Finance Committee), based on the outputs of the planning exercise, is responsible for indicating the WSDP financial requirements on an annual basis. This information guides development partners on the amount of funds required. Following the annual review, development partners will confirm their funding commitments by signing a separate agreement that specifies the levels of funding by donors for the following year and estimated support for the next three years MTEF period.

### **4.3. Deposits to the water sector basket fund account**

Development partners shall deposit funds into the Water Sector Basket Fund account prior to the commencement of the GoT's financial year in July. Deposits should be sufficient to finance activities for the first six months of the financial year. Subsequently, partners may deposit their contributions on a 6 months basis.

The 2001 Treasury circular, "Channeling of programme /Project Funds through the Exchequer System", states that development partners are required to inform the MoF and MoW in writing of any deposits made. In their communication, development partners must provide details of the "account number, name of sub the programme /project and any other relevant details".

The BOT issues a Bank Credit Advice to the MoF to notify that the bank has credited the WSDP Holding Account with funds received from development partners. The MoF maintains a file of all bank credit advices on this account. On receipt of the

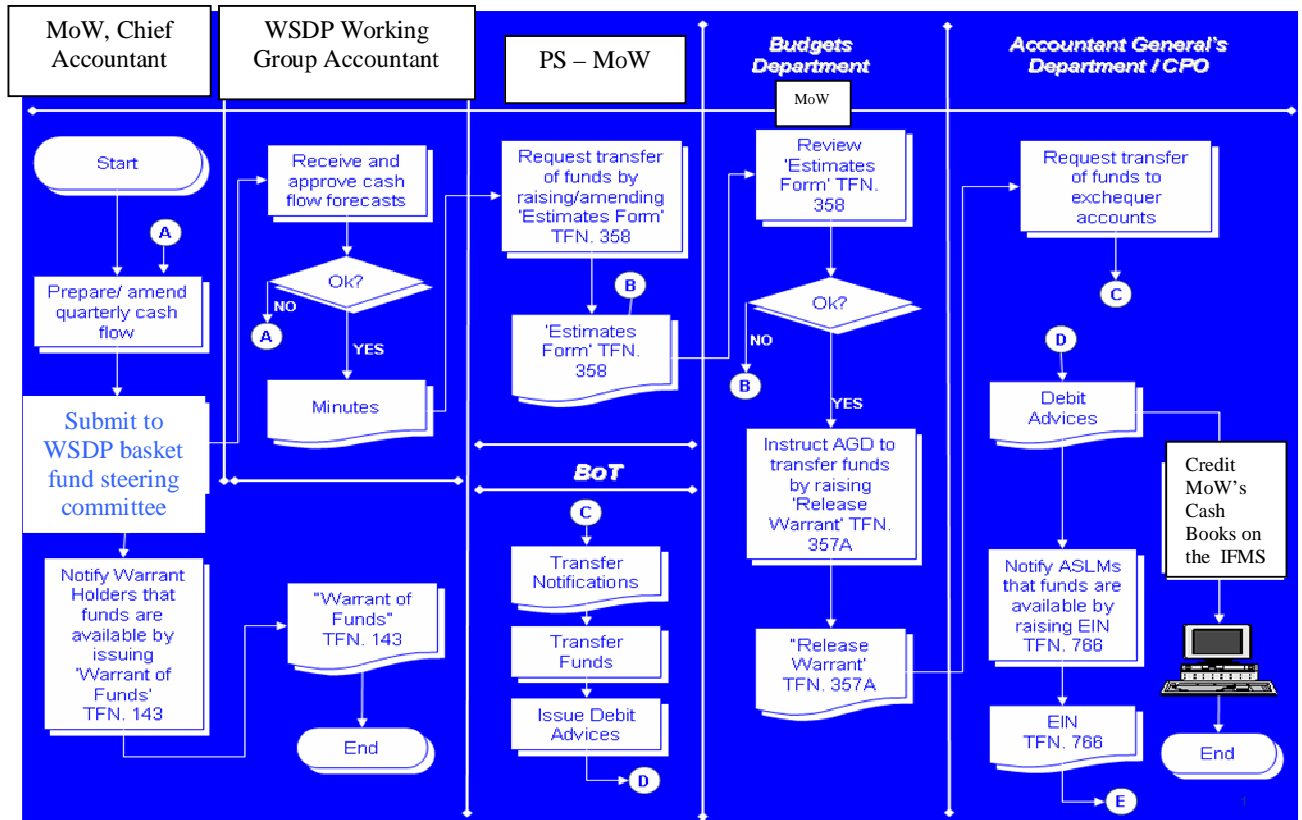
Bank Credit Advice, the MoF issues a pre-numbered Receipt Voucher in triplicate. The original is sent to the development partner, second copy filed with supporting documentation (credit advice and bank statement) and third copy maintained as the book copy. The IFMS operator at the MoF's office uses the duplicate Receipt Voucher to update the cashbook on the IFMS.

#### **4.4. Disbursing funds from the basket fund account to Tshillings account**

The following procedure shall be used for disbursing funds out of the Water Sector Basket Fund account to the WSDP development exchequer accounts:

- One month prior to commencement of the next quarter, MoW shall prepare a quarterly cash flow. In the course of preparing the cash flow, reference will be made to the work plan and cash flow for the preceding quarter. Accounting Officers will submit consolidated cash flow forecasts to the WS Working Group Finance Committee for review and approval.
- MoW requests the MoF in writing to transfer funds from the WSDP holding account by filling in the Development Estimates Form TFN 358.

**Figure 4.1 Disbursing funds from the basket fund account to exchequer account**



- Budget Officers at the MoF review the forms and if there are no issues arising from their review (i.e. they are satisfied with its contents), they pass the approved forms to the Accountant General to transfer funds from the holding account to Exchequer accounts. Budget officers fill in the Treasury Release Warrant (TFN 357A) to affect this procedure
- When the transfers have been affected, the BOT issues the MoF with debit advices. The Central Payments Office (CPO) at the MoF credits each WSDPs cash book on the IFMS. Thereafter, the MoF sends Exchequer Issue Notifications (EINs) [TFN. 766] to PS MoW, notifying him/her of the transfer
- Separate EINs are issued for funds that are from internal sources i.e. GoT funds and external sources i.e. direct budget support
- On receipt of the EIN, each WSDPs Chief Accountant/Treasures allocates funds to various Warrant Holders and informs them that resources are available by issuing a Warrant of Funds [TFN. 143]. Warrants of Funds authorise Warrant Holders to spend funds allocated for activities indicated on the warrant. Separate Warrants of Funds are issued for GoT funds and funds from



## **4.5 Reporting on basket fund balances**

At the end of every month, the MoF shall:

- Collect bank statements from the BOT for the previous month and prepare a journal voucher and post the journal voucher to the cash book.
- Prepare a month end Bank Reconciliation Statement to agree the cash book balance to that shown on the bank statement. Bank reconciliation statements must always be supported by the following schedules:
  - Deposits recorded on bank statements but not entered in the cash book
  - Cheques recorded in the cash book but not credited on bank state
  - Transfers shown on bank statements which have not been posted to the cash book.

Every quarter, the MoF shall provide MoW with a schedule which specifies all transfers from the basket fund account. This information is provided on the standard Foreign Currency Receipts and Payments Summary. The MoF shall also send to MoW copies of bank statements.

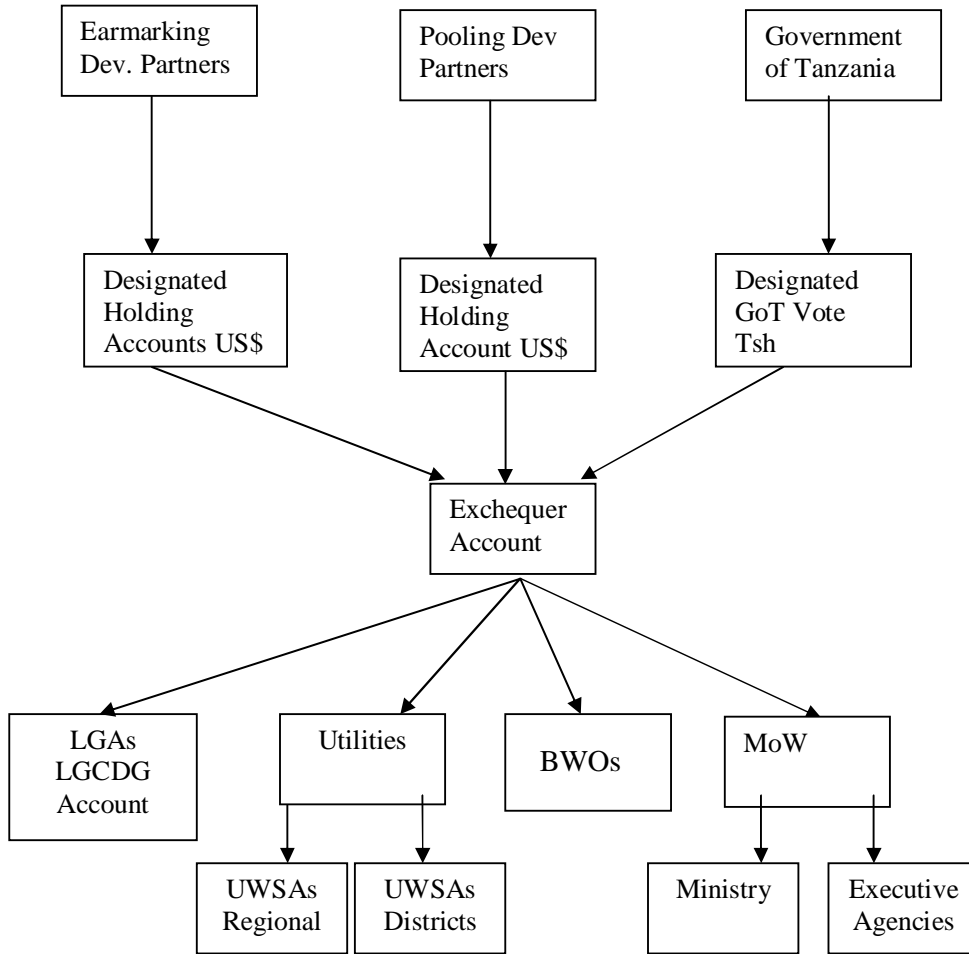
## **4.6 Exchange rate procedures**

The Water Sector Basket Fund account shall be maintained in United States Dollars (USD), but transfers from this account to each WSDP's Exchequer Account are made in Tanzania Shillings (TZS). Thus, there is a need to convert amounts in USD into TZS. Likewise, at the end of the fiscal year, unspent balances in TZS are converted into USD and transferred back to the basket fund account. Consequently there are likely to be monetary gains and losses arising from currency conversions.

In order to determine gains or losses, the MoF keeps a record of exchange rates applicable on the date funds are deposited into the holding account; and transferred to various exchequer accounts. In particular, the Public Debt Section at the MoF is responsible for daily input of official exchange rates from the BOT (buying and selling) into the IFMS.

The MoF attributes funds retained in the basket fund account to each development partner on the basis of contributions.

### Flow of Funds



LGAs = Local Government Authorities  
UWSAs = Urban Water and Sewerage Authorities  
BWOs = Basin Water Offices (9 No.)  
MoW = Ministry of Water

## **SECTION 5 - PROGRAMME ACCOUNTS AND PAYMENTS**

Separate Programme Accounts will be maintained at Commercial Banks for meeting all programme related expenditure drawing deposited from the MoW to be replenished quarterly

This section describes:

- Payments procedures for goods and services at central and local levels
- Procedures for direct payments
- Procedures in issuing and accounting for imprests.

### **5.1 Disbursements from the MoW development funds**

The Procurement Regulations require that prior to commencing the procurement process, MoW commits funds totaling the estimated value of goods and services on the IFMS Vote Control Register. These processes are illustrated in and explained below. Once funds have been committed on the system, the WSDP entity must generate a Local Purchase Order (LPO).

After a contract has been awarded, the IFMS system only allows payments to be made when an invoice sent by a supplier is supported by documents such as an LPO and Goods Received Note. Equipment and goods received must be verified and labeled by the MoW Stores Officer. In accordance with Section 194 Sub-section 2 of the Public Finance Regulations 2002, the Stores Officer must immediately notify the supplier of any irregularities (e.g. defects).

The Procurement Officer at each WSDP entity, after receiving confirmation from the goods/services receiving department/section, signs the invoice and all supporting documents, signifying payment authorisation before sending it to the Chief Accountant. Thereafter:

- The Accountant confirms that the details per the invoice match those contained in the contract, raises a journal voucher, posts details of the transactions on the IFMS and generates a “TFN 4 - Payment Voucher (PV)”. The IFMS only generates a PV if funds have previously been committed and an LPO raised.
- The MoW Internal Auditor verifies the PV and supporting documentation and if satisfied that the information contained is accurate, approves the PV on the IFMS and signs the hardcopy at hand. The Chief Accountant must also sign-off the PV once he/she has confirmed that it has been posted on the IFMS. Thereafter, he/she generates an approved but un posted list of PVs for submission to the Chief Procurement Officer (CPO)

- As the IFMS is online and networked, CPO personnel are able to access authorized payment requests on the system.
- Prior to cheque printing, personnel reconcile entries on the system to hard copies of the unposted list of PVs submitted by the Chief Accountant. If there are no anomalies, personnel print cheques which are forwarded for signature by authorised officers in the MoF's Department
- The MoF sends a copy of the cheque list to the BOT. WSDP Entity also gets a copy of the same list when collecting cheques from the CPO which is used for verification purposes
- All suppliers of goods and services collect their cheques from the MoW, where they are required to sign a register confirming receipt of cheques. At the time of issuing cheques, the Accountant must stamp the PV and all supporting documentation with a "PAID" stamp indicating the cheque number on the relevant panels. The Accountant must also file documents in order of PV serial number.

## **5.2 Payments in foreign currency**

Where payments need to be made in foreign currency, the IFMS is customised to enable PVs to be generated which are payable to the BOT. However, the PV must contain a supplier reference. The processing of payment is similar to the one described above, except that cheques generated by the CPO are in favour of the BOT. Further, the Chief Accountant must present the cheque, a copy of the PV and written instructions to the BOT requesting a bankers draft or TT to be effected in favour of the supplier.

## **5.3 WSDP implementing agencies accounts used for making related payments**

The Procurement regulations require that prior to commencing the procurement process, the implementing agencies commit funds totalling the estimated value of goods and services either on the IFMS Vote Control Register for WSDP institutions that have implemented the IFMS or on the Manual Vote Book for WSDP Entities that are on the manual system. Once funds have been committed, the Entities must generate an LPO.

All payments with the exception of petty cash payments are made by cheque. Cheques must be drawn against the relevant sector bank accounts in which WSDP funds received from the central government have been deposited.

## **Operation of the bank account**

There are two categories of signatories to the sector bank account. These are:

### **Category A:**

Any two Sector Heads will be appointed as relevant to the entities (MoW, BWOs, EAs, UWSAs and LGAs).

### **Category B:**

The Warrant Holder or other officer nominated by him/her and the Programme Accountant.

One signatory from both the categories must sign all cheques.

## **5.4 Payments procedures for implementing agencies on the manual system**

Prior to making payments to suppliers of goods and services, the Head of the PMU is required to match invoices submitted against LPOs. The Head in consultation with the user department establishes whether goods and services are delivered satisfactorily and thereafter authorises the invoices for payment by signing the invoice. The invoice with supporting documents is then forwarded for payment. All payment vouchers must be authorised by the Warrant Holder.

It is important for both the Warrant Holder and Accountants to ensure that the procedures are followed including that payment vouchers must:

- Be serially numbered throughout the month, and the number recorded in the cash book against the relevant entry
- Contain an adequate explanation of the payment being made by the implementing agencies, giving references of payment orders etc
- Be initialled by authorised persons when alterations are made
- Be stamped with the word “paid” and the date of payment” when payment is made.

The Accountant then writes a crossed cheque in favour of the supplier for amounts indicated on payment vouchers. Cheques are then signed by two authorised signatories. It is the responsibility of the Accountant/Council Treasurer to ensure that all signed cheques are recorded in a dispatch book. Suppliers are required to collect and sign for cheques.

The Accountant maintains cash books for the relevant sector account, and a subsidiary ledger for WSDP expenditure. It is his/her responsibility to ensure that entries are posted as they occur so that the balance of the account can be ascertained

at any time with a reasonable degree of accuracy.

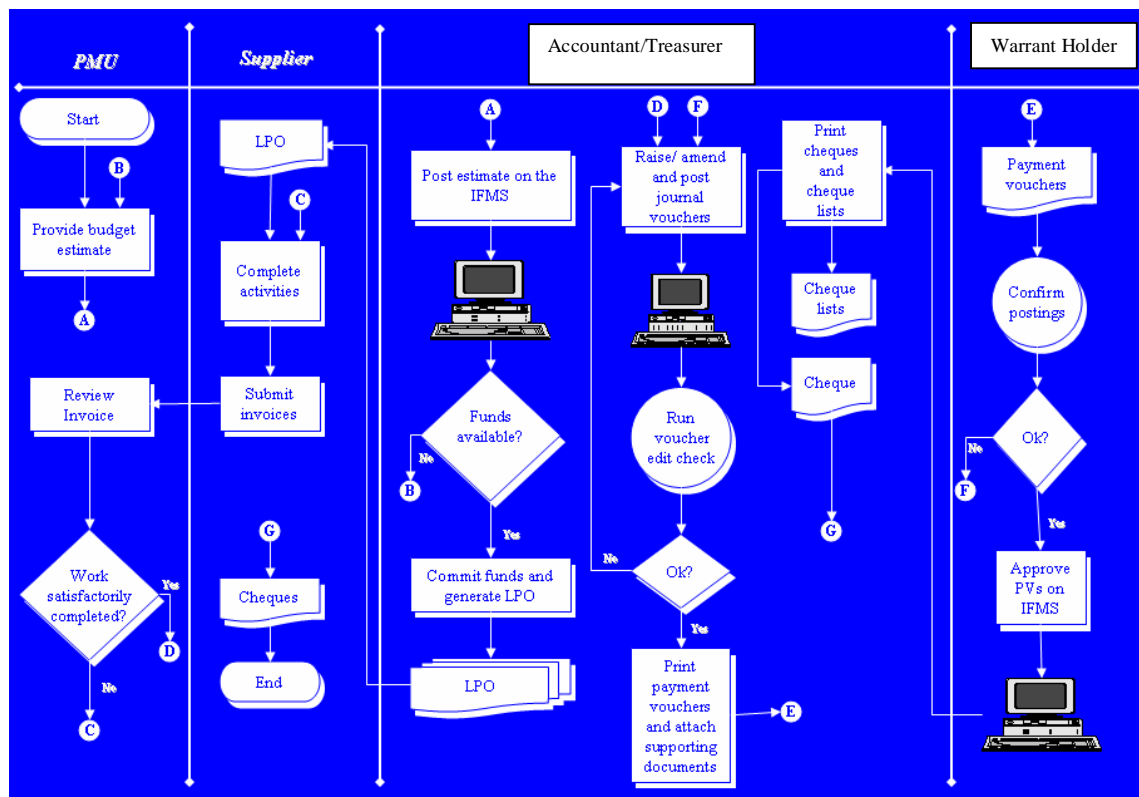
Cheque details required for posting to the cash book should be extracted from cheque counterfoils. Further, cheque amounts posted to the cash book should be recorded in strict numerical order (including cancelled cheques).

### 5.5 Payment procedures for implementing agencies on IFMS

After a contract has been awarded, the IFMS system only allows payments to be made when an invoice sent by a supplier is supported by documents such as an LPO and Goods Received Note. Equipment and goods received must be verified by the PMU.

The payment procedure is summarized in figure 4.2 and described below. The head of the PMU after confirming with the user department that goods and services have been satisfactorily received, signs the invoice and all supporting documents signifying payment authorization and forwards it to the Accountant.

Figure 4.2



The Head of the PMU after confirming with the user department that goods and services have been satisfactorily received, signs the invoice and all supporting documents signifying payment authorisation and forwards it to the Programme Accountant.

The Programme Accountant thereafter confirms that the details per the invoice match those contained in the contract, raises a journal voucher, posts details of the transactions on the IFMS and generates a “TFN 4 - Payment Voucher (PV)”. The IFMS only generates a PV if funds have previously been committed and an LPO raised.

The Warrant Holder must also sign-off the PV once he/she has confirmed that it has been posted on the IFMS. Thereafter, he/she generates an approved but un-posted list of PVs for submission to the Chief Accountant/Council Treasurer. Thereafter:

- Cheques are printed and are forwarded for signature by authorised signatories to the account
- All suppliers of goods and services collect their cheques from the council, where they are required to sign a register confirming receipt of cheques. At the time of issuing cheques, the Accountant must stamp the PV and all supporting documentation with a “PAID” stamp indicating the cheque number on the relevant panels. The Accountant must also file documents in order of PV serial number.

It suffices to emphasize that there is redress within the law, against, any officer who interferes with the delivery of services. WSDP funds will be withdrawn if it is revealed that they are being used and spent in contradiction to specified guidelines.

## **5.6 Stale, stolen and cancelled cheques**

### **Stale cheques**

At the central level, the Chief Accountant can reissue cheques which become stale at the request of a supplier by: obtaining the stale cheque or an indemnity cover if lost; posting a journal to the IFMS cash book and general ledger reversing the initial entry; and repeating the steps described above.

At the WSDP implementing agency level, the Treasure/Accountant can reissue cheques which become stale at the request of a supplier by: obtaining the stale cheque or an indemnity cover if lost; posting a journal to the manual or IFMS cash book and general ledger reversing the initial entry; and repeating the steps described above.

### **Stolen cheques**

At the central level, the MoF store unused and printed cheques in safes. However, in the event that cheques are stolen, the MoF must instruct the BOT not to honour them

by issuing a stop order. In addition, they notify members of the public that cheques have been stolen by placing a notice in the newspaper.

The Police must investigate the theft of cheques. MoF shall also ascertain why and how controls have been overridden.

At the implementing agency level, the Accountant should store unused and printed cheques in safes. However, in the event that cheques are stolen, the Accountant must instruct the bank not to honour them by issuing a stop order. In addition, they shall report to the Police and also notify members of the public that cheques have been stolen by placing a notice in the media.

### **Cancelled cheques**

At the central level, cancelled or spoilt cheques must be written back on the IFMS by the CPO. The CPO also maintains cancelled/ spoilt cheques in a file. Cancelled and spoilt cheques must be perforated.

At the implementing agency level, cancelled or spoilt cheques must be written back by the Accountant on the IFMS or in the manual cashbook and subsidiary ledgers. The Accountant also maintains in a file all cancelled/ spoilt cheques, which must be perforated.

### **5.7 Accounting for direct payments**

Some of the activities under the WSDP are funded by donor funds outside the GoT system. In order to capture this development assistance in GoT's books, the Chief Accountant, obtains details (e.g., invoices, asset particulars given, value of technical assistance etc.) from development partners of expenditure in relation to the WSDP. Thereafter:

- The Chief Accountant fills an Estimates Form TFN 358 (Development Estimates - Monthly Application and Progress Report), attaches a copy of the payment evidence and forwards it to the MoF
- Upon receipt of the Form TFN 358, Budget Officers at the MoF scrutinise details contained on this form and if satisfied grant a Release Warrant [TFN 357A]. The MoF, using the "Dummy Transaction", a facility that exists on the IFMS, issue a Dummy EIN in favour of the relevant WSDP Entity (for recording purposes only, since there is no actual cash flow). This posting enables MoW to recognise receipts
- The Chief Accountant using the same dummy transaction facility raises a PV to the same value of the Exchequer Issue. This transaction allows to recognise the expenditure.



## **5.8 Issue of imprests**

WSDP implementing agencies personnel associated with the WSDP programme can apply for imprests to meet travel, accommodation and workshop/seminar expenses by completing an Application For Issue of Imprest.

### **At the MoW level**

The responsibility for approving imprests falls upon MoW Warrant Holders. The IFMS Operator carries out steps described above to commit funds and raise PVs. As earlier indicated, cheques are generated at the CPO. All Imprest Holders are shown as debtors on the IFMS.

On completion of their activities or 14 days after obtaining imprests (which ever is earlier), Imprest Holders are required to immediately account for amounts advanced in full by completing an Imprest Retirement Form and furnishing relevant supporting documentation. Officers who fail to retire imprests are subject to the actions contained in the Public Finance Regulations. Specifically, Regulation 103 Sub-Section (2) states that “the amount outstanding may forthwith be recovered from any salary or other emoluments or from any other amounts due to the officer”.

The Public Finance Regulations also require that all imprests are retired at the financial year end. This requirement is irrespective of whether an Officer has completed his/her activities. If need be, a fresh imprest can be issued in the next financial year.

### **At the implementing agency level**

The Treasurer/Accountant is responsible for making arrangements for the administration and payment of imprests. The Accountant/Treasurer makes available the current regulations on imprests to Sector Heads and Employees.

Imprest payments must not be made out of imprests accounts without the express authority of the Accountant. From time to time, Sector Heads send the names of Officers authorised to certify such claims together with their specimen signatures to the Accountant/Treasurer. The Accountant must update his/her records to reflect such changes.

On completion of their activities or 14 days after obtaining imprests (which ever is earlier), Imprest Holders are required to immediately account for amounts advanced in full by completing an Imprest Retirement Form and furnishing relevant supporting documentation.

Where outstanding imprests exceed a time period of one month, they attract an interest charge of not less than the commercial bank rate applicable during the period. This is irrespective of whether a previous surcharged has been levied.

## **SECTION 6 - PERIODIC ACCOUNTING ROUTINES AND FINANCIAL MONITORING REPORTING**

This section sets out the internal and external management reporting and information requirements for the WSDP.

The Section describes the formats of various financial reports, based on daily, quarterly and annual accounting routines. The reports form the basis for inputs into the centralized Government accounting system using Epicor software and for providing management information. In addition, the Section describes the interim financial reports (IFRs) unaudited financial reports that are an essential feature of programme management

The reports help MoW, WSDP Implementing Agencies and the WS Working Group Finance Committee to:

- Analyse the results of WSDP operations and its financial position on a periodic financial report basis
- Develop policies and planning future operations
- Make effective decisions on the allocation of resources
- Monitor performance and control of the programme's operations
- Review internal and external audits which provide them with independent views
- Report outcomes to development partners and other stakeholders.

### **6.1 Programme reporting at MoW level**

The table below provides a list of reports generated from or using information from the IFMS and other records. It specifies the information that they contain and the frequency of their production. In brief:

- MoW Accountant submits a flash report for his/her relevant vote to the relevant Warrant Holder and the PPU of MoW within two weeks of each period end. Thereafter:
- Warrant Holders must examine the reasons behind variations from the budget, assess their implications on the work plan and decide on the necessary remedial action. Each Warrant Holder then writes a report on the cause and effect of each variation and the recommended action and sends the original to the Chief Accountant and a copy to the PS. Warrant Holders must submit their

explanations on positive and negative variances within one week of the receipt of the report

- PPU of MoW, consolidates information into an overall report on expenditure against budget and total commitments. The PPU of MoW uses the consolidated report which has the same format as the flash report template, to monitor budget implementation progress. The PPU of MoW submits a consolidated quarterly flash report to the WS Working Group Finance Committee together with a narrative summary of any issues that have arisen during the quarter.

**Table: Financial reports (see Annex A)**

<b>Name of Report</b>	<b>Reference</b>	<b>Generated From</b>	<b>Reports</b>
Flash Report	A2	Monthly/IFMS	Expenditure and commitments on a monthly and cumulative basis
Exchequer Releases	A8	Quarterly/IFMS	All transfers from basket account to the Exchequer
Quarterly Performance Report	A9	Quarterly/IFMS	Actual and cumulative expenditure against budget
Output Monitoring Report	A10	Quarterly/IFMS	Actual and cumulative expenditure against budget
Procurement Report	A11	Quarterly/IFMS	Progress made with respect to procurement
Receipts and payment account	A3	Annually/IFMS	Reports into the basket, transfer to the exchequer, WSDP expenditure and the balance at the end of the year.
WSDP Consolidated Report	A4 – A7	Quarterly	Technical and financial performance of Warrant Holders

- MoW's Chief Accountant submit copies of the Approved Exchequer Releases and Undistributed Exchequer reports to the Coordination Team of the PPU at the same time, as flash reports. The DPP of MoW maintains reports on Exchequer Releases as an audit trail.
- MoW's Chief Accountant produces a Uses of Funds by Programme Activity report within 45 days of the end of each quarter, and submits it to Warrant Holders, and the DPP of MoW. This report provides information on actual expenditure during the quarter on each activity against what was budgeted and contained in the MoW's work plans. At the MoW's level, it is used to identify any problematic activities and plan remedial measures for the next quarter. It also informs cash flow forecasting. The WS Working Group Finance Committee also refers to this report to obtain a breakdown of expenditures reported in the flash report
- MoW Accountant in collaboration with PPU of MoW produces an Output Monitoring report within 45 days of the end of the quarter. This report provides information on actual physical progress during the quarter in relation to expenditure incurred and budget for each programme activity and sets out plans for completion. This report supports scheduling of activities and facilities in the identification of any budget variations, which must be approved by the PS of MoW and ratified by the WS Working Group Finance Committee.
- MoW Procurement Management Unit prepares a procurement report within two weeks of the end of the quarter, and submits it to the PPU of MoW. This report provides information on the procurement of goods, works and services and on compliance with agreed procurement methods. The report compares performance against the procurement plan and highlights key issues such as staffing and capacity. This report is prepared in two parts: Part I provides a descriptive summary of procurement activities; and Part II provides financial information with actual and budgeted values
- Chief Accountants with support from the MoF, prepare a Receipts and Payments report for the WSDP, within four weeks of the end of the year. This report provides details of transactions for the year showing actual receipts by source of funds, actual expenditure incurred and any unspent balance of funds at the end of the year. It also compares actual expenditure against approved estimates. The Receipts and Payments report is supplemented by notes and explanations. The report must be signed by the MoW and is audited by the Basket Fund's external auditors.

## **6.2 Reporting requirements at Implementing Agencies level**

### **Quarterly reports**

The quarterly report is a holistic report on the technical and financial performance of an implementing agency against the Sector Development Plan. It should not be excessively burdensome to produce but should summarise the critical data required to manage Water Sector Development Programme in monitoring performance.

The outline format of the quarterly report is provided in Annex B (see B2 and B3). The report comprises three parts:

#### **Section 1 – Overview**

A summary of the major successes and failures in the quarter and issues arising. In addition, it sets out reasons for significant variances from the approved budget.

#### **Section 2 - Technical report**

Reports performance against the Programme Development Plan.

The format for current quarterly performance monitoring report.

#### **Section 3 - Financial report**

This includes the water sector development accounting return (containing the bank reconciliation, bank statement and other relevant information).

#### **Action by MoW on quarterly reports**

The MoW scrutinizes the reports to ensure that financial regulations have been complied with. During the same period, MoW will raise concerns regarding implementing agencies technical and financial performance. It is the responsibility of the MoW to:

- Ensure that reports are in agreement with WSDP implementation framework. In the event of a disagreement, discussions take place prior to the WS Working Group Finance Committee meeting to ensure that both parties concur with the recommendations
- Ensure that reports are presented to the WS Working Group Finance Committee together with a final recommendation regarding funding.

A consolidated report for all implementing agencies is produced by the MoW for the WS Finance Committee comprising a summary of:

- Water sector accounting returns including a recommendation to the WS Working Group Finance Committee

- Each implementing agency's technical achievements

## **Reports**

It is the responsibility of the implementing agencies to ensure that the year's final accounts are prepared within the period specified by the financial memorandum and development contracts. The programme Treasurer/Accountant prepares the standard annual reports required by the financial regulations.

Periodic financial monitoring reports, to be prepared by each implementing entity will be designed to provide quality and timely information to government and all DPs and various stakeholders on the program's performance. They will be used to trigger released of WSSP funds to all participating entities.

Within 40 days of the end of each quarter, the following reports would be prepared by each participating entities and submitted to MoW for consolidation with copies to MoF and the Water SWG. The contents of these reports should, at a minimum, include the following:

- Financial reports consisting of sources of funds, uses of funds by program activity/component, and statement of actual and budget expenditures;
- Physical progress or output monitoring reports;
- Procurement report; and
- Management assertion that project funds have been expended for the intended purposes as specified in the program documents.

The MoW will consolidate the IFRs from the implementing entities and submit these to IDA and other DPs within 60 days of the end of the quarter. Also, for the purposes of disbursement, MoW will prepare six-monthly consolidated IFRs and submit these to IDA and other DPs.

## **SECTION 7 - AUDITING AND MONITORING ARRANGEMENTS**

The purpose of this Section is to describe the arrangements for the WSDP financial statements and operations to be audited by qualified and experienced auditors and to set out the Terms of Reference for the External Auditor.

### **Responsibilities**

The National Audit Office (NAO) has responsibility under law to undertake external financial and performance audits within six months of the financial year end.

The Controller and Auditor General may discharge this responsibility by authorizing reputable audit firms to undertake audits on his/her behalf.

The Heads of implementing agencies are responsible for ensuring that external auditors are allowed to access all records of WSDP and to be furnished with all the information they may require from WSDP staff. The Accountants are responsible for assisting and leading the auditors in their audit by furnishing them with relevant records and information necessary for the purpose of the audit. They will monitor the compliance of WSDP to audit covenants and initiate necessary action required for compliance.

### **Internal audit arrangements**

Internal Auditors have an important role to play in keeping WSDP's management informed of the programme's progress. In particular, they are required to:

- Inform heads of implementing agencies on the usage of WSDP funds
- Report on progress with respect to achievement of WSDP objectives and targets
- Offer advice and recommendations for enhancing resource management and accountability.

The Public Finance Regulations of 2001 require each Internal Auditor to work closely with the heads of implementing agencies.

### **External audit arrangements**

The external audit will be carried out annually by the National Audit Office (NAO) or such other person registered as an auditor under the Auditors and Accountants Act of 1972 and approved by the Controller and Auditor General (CAG). The Auditors will express an opinion on the annual project financial statements based on International Standards on Auditing (IFAC/INTOSAI pronouncements) and submit the audit report within six months of the end of the financial year.

Additionally, the NAO, through its zonal offices, will carry out continuous audit of LGAs (on a sample basis) throughout the year and submit to DPs on a quarterly basis the summary of audit findings. The terms of reference for these in-year continuous audits will be agreed with the Auditor General by the Bank and other DPs.

In addition, the Auditors will provide:

- Give an opinion on the basket fund account's opening balance, transactions during the year and closing balance. To this end, auditors are required to, for example:
- Detailed management letters containing the auditor's assessment of the internal controls, accounting system and compliance with financial covenants in the Financing Agreement.
- Obtain confirmation from the development partners on amounts transferred during the financial year to the basket fund account.
- Ensure that all transfers from the basket fund account have subsequently been transferred to implementing agencies development exchequer accounts.
- Give assurance with respect to disbursements made through the Development Exchequer; vouch the validity and accuracy of payments; verify the effectiveness of systems and provide an opinion on whether funds disbursed were used for their intended purpose.
- Give an opinion on the financial statements. Should their opinion be qualified, the auditors must explain the factors which have influenced their position
- Assess the adequacy of systems for internal control and accounting and particularly the control of fund releases and payments as well as the adequacy of the accounting and reporting systems.
- Give recommendations with respect to any control weaknesses identified in a management letter. The auditors discuss the management letter with the MoW management. They must incorporate any comments received in the management letter.

### **Performance audit**

The Auditor-General will also carry out performance audits for the program in the event that a particular risk has been identified, during a course of a financial year, and/or where the timely conduct of the annual external audit may not be feasible, then any party to the WSDP MoU and/or the WS Working Group Finance



Committee can request for a performance audit by:

- Drawing up Terms of Reference for the continues performance audit.
- Engaging auditors from reputable audit companies using the procurement guidelines as may be provided.

At the end of the special audit, the auditors are expected to feedback their findings and recommendations in a written report that shall be presented to the WS Working Group Finance Committee. Findings should specify problem areas.

## **7.1 Auditing requirements at implementing agencies level**

### **Internal audit**

The internal audit process in WSDP operates within the normal implementing agencies internal auditing procedures stipulated or as may be stipulated from time to time. Specifically, implementing agencies are required to employ a qualified Internal Auditors. Although the Internal Auditor works closely with the Accountant/Treasurer, he/she reports directly to the warrant holders.

The Internal Auditors will develop an audit strategy and plan for the program based on the risk assessment. The internal auditor's work would be monitored and reviewed (by the Water Sector Working Group, the ministerial audit committee, the boards of Water Utilities and the Finance of Committee of LGAs) during program implementation to ensure that the internal control systems are functioning adequately and that the issues raised in the internal auditor's report are addressed by the respective ministry, utilities and LGAs. The Committee will meet quarterly to review and approve the Internal Auditor's plans and reports, and monitor implementation of the audit recommendations. It will also advise Accounting Officer on any actions that need to be taken.

### **Preparation for annual audit**

There is an annual audit of the WSDP. The scope of the audit covers the Consolidated Financial Statements and performance of the internal controls in place for the programme.

In addition, the programme at implementing agency level relies on the audited accounts of the agencies. It will be the responsibility of the Warrant Holder to forward a copy of the audited accounts to MoW.