

**PUNTLAND STATE OF SOMALIA
LOCAL GOVERNMENT FINANCIAL
MANAGEMENT MANUAL**



FINAL (March, 2016)

Contents

Glossary of terms	3
Acronyms	6
1 Background to the manual	8
1.1 Introduction	8
1.2 Legal requirements	8
1.3 Issue and revision of Puntland Local Government Financial Management Manual	9
1.4 Organisation of this manual	9
1.5 Effective date	10
2 Financial administration and control	11
2.1 Functions of the department of administration and finance	11
2.2 Recommended organisational chart for district finance administration	11
2.3 Delegation of Authority	13
2.4 Records management	14
2.5 Management and control of safes, cash boxes and keys	16
2.6 Stores management	18
3 Internal control	21
3.1 Overview of internal control	21
3.2 Accounting controls	21
3.3 Administrative controls	23
3.4 Limitations of internal controls	23
4 Budgeting	24
4.1 Introduction	24
4.2 The District Budget Framework Paper	25
4.3 The planning and budgeting process	28
4.4 Pre-conditions for successful District budgeting	29
4.5 Stages and steps of budget calendar/process	30
4.6 Drafting and compiling the District budget	35
4.7 The District budget format/contents	38
4.8 Annual work plans	49
4.9 Final stage of budget process	50
4.10 Budget revision	50
4.11 Cash flow budget/management	52
4.12 Monitoring of budget	55
5 Revenue	57
5.1 Legal context and definition	57
5.2 District revenue mobilisation and collection	58
5.3 Debt management and credit control	67
5.4 Revenue records	68

5.5	Revenue accountability	71
5.6	District borrowing	71
5.7	District investments	72
6	Expenditure	74
6.1	Legal context	74
6.2	Commitments	75
6.3	Vote book	79
6.4	Procurement of goods, services or works	81
6.5	Payments	86
6.6	Payment of salaries and other employee costs	92
7	Fixed assets	96
7.1	Introduction	96
7.2	Assets acquisition	96
7.3	Assets maintenance	96
7.4	Assets records	96
7.5	Assets depreciation	96
7.6	Redundancy, losses, disposals and write-off of assets	98
8	Accounting and recording	100
8.1	Legal context	100
8.2	Basis of accounting	100
8.3	An account	102
8.4	Districts books of account/records	104
8.5	Bank accounts, cashbooks, and ledger accounts	107
8.6	Abstract posting	115
8.7	General and subsidiary ledgers	118
8.8	Classification of financial items	120
8.9	Recording of fixed assets	121
8.10	Annual closure of accounts	122
9	Financial reporting	125
9.1	Introduction	125
9.2	Legal reporting requirements	125
9.3	Quarterly financial statements	125
9.4	Annual financial statements	125
	Appendix A: List of International Public Sector Accounting Standards	132
	Appendix B: Fixed Assets Register	134

Glossary of terms

Approved budget	The Law No.7 of 18 th September 2003 on the Laws of the District Councils of the Puntland State of Somalia.
Assets	Resources controlled by a District as a result of past events and from which future economic benefits or service potential are expected to flow to the entity All assets recorded in the District Public Financial Management (PFM) systems are economic assets (that have value) over which ownership rights are enforced by the District and from which economic benefits may be derived through holding them or using them over a period of time.
Books of accounts	Records where financial transactions of a District are recorded.
Budget	A plan of resources available and how those resources are going to be utilised over a period of time (financial year) all expressed in monetary terms.
Budget Cycle	Various steps taken in the budgeting process at different times.
Cash	Cash comprises cash on hand, demand deposits at bank and cash equivalents.
Cash basis of accounting	A basis of accounting that recognises transactions and other events only when cash is either received or paid.
Cash flow	Movement of cash into and out of a District.
Central Government	The Central Government of Puntland State of Somalia.
Chart of Accounts	A list for operational accounts.
Coding	A system of classification of revenue and expenditure accounts.
Commitment Requisition Form	A format through which a commitment is recorded.
Creditor	A person or entity to whom money is owed.
Debtor	A person or entity who owes money for the District.

Department	Means a functional or sectorial administrative area of the District for which a senior officer is responsible as a Director, for example, Department of Administration and Finance.
District	Means the Districts set out in the Law No.7 of 18 th September 2003 on the Laws of the District Councils of the Puntland State of Somalia.
Expenditure	Refers to the different ways in which funds are allocated and spent from the District's budget.
Head	Means head of sections and departments which the District establishes.
Secretary for Local Government	The District Accounting Officer and the most senior official responsible for the management of the administration of the District as appointed by the Minister of Interior and approved by the District Council.
Fixed asset	Any asset, tangible or intangible, acquired for retention by the District for the purpose of providing a service to the District administration.
Income and expenditure statement	A detailed statement of a District indicating revenue accrued and expenses incurred by a District within a specified period of time.
IPSAS	International Public Sector Accounting Standards (IPSAS) are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements. These standards are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
Local Government	District, City, Municipal or Town Council.
Payroll	This is the weekly, monthly or regular printing of the total District payroll for review by the Director, Administration and Finance and the Secretary for Local Government.
Reallocation	Shifting of funds between items under different department

Recurrent	An amount spent on costs that are ongoing, that is, they occur every year, for example, salaries.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity of a District.
Supplementary estimates	Additional funds required for recurrent and development budgets over and above the initial budgets.
Virement	Transfer of funds between items within the same departments
Work plans	A schedule of intended activities to be performed with clear objectives and targets to be achieved within a specified time frame

Acronyms

AIE	Authority to Incur Expenditure
AIMS	Accounting Information Management System
AWPB	Annual Work Plan and Budget
BIMS	Billing Information Management System
CCS	Commitment Control System
CGT	Central Government Transfer
CoA	Chart of Accounts
DAF	Director Administration and Finance
DBFP	District Budget Framework Paper
DDP	District Development Plan
FMIS	Financial Management Information System
FY	Financial Year
HoD	Head of Department
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
LPO	Local Purchase Order
NGO	Non-Governmental Organisation
OSR	Own Source Revenue

PCB	Puntland Central Bank
PEM	Public Expenditure Management
PER	Public Expenditure Review
PFM	Public Financial Management

1 Background to the manual

1.1 Introduction

This financial management manual ('manual') shall apply to all financial transactions of all Districts and to the management of all public monies and property. The manual provides financial management procedures, systems, procedures, forms and accounting records. The manual shall guide and regulate the finance staff while performing their day-to-day work. It should be used concurrently with the Puntland Local Governments Finance Policy, 2016.

The Secretaries for Local Government in all Districts are responsible for providing security and control of the funds and assets of the Districts. This can only be achieved by the rigid enforcement of financial control measures through the Director Administration and Finance (DAF). The Senior Finance Officers must acquaint themselves with the provisions of this manual and instruct the Junior Finance Officers in the correct procedures relevant to their duties. Regular training sessions and discussions should always be held, within the finance units, at which the instructions and procedures laid down in this manual can be fully explained and understood.

The following financial management functions have not been covered in this manual. The procedures and forms applicable to them are expected to be issued under separate manuals:

- (i) Internal Audit; and
- (ii) Procurement.

1.2 Legal requirements

The Constitution of the Puntland State of Somalia, 2009 provides District's administration, section 2 states that each District shall enjoy autonomy on economic and administrative affairs, and shall be ruled by a District Council.

Article 125 of the Constitution, section 2 states that the District Council has powers to introduce, modify or suppress the payments that the community has to make for the services the District Council provides and to establish specific contributions for the financing of specific public works in its jurisdiction. Section 3 of Article 125 of the Constitution states that the Council has powers to approve and make known to the public the annual budget of its administration, containing all the income that is expected to be received and all of the expenditure the District Council plans to carry out.

According to Law No.7 of 18th September 2003 on the Laws of the District Councils of the Puntland State of Somalia, Article 31, section 31.1, the responsibility of Secretary for Local Government are among others to:

- Look after the budget of the Local Council, collection of the taxes and other duties;
- Safeguard and protect revenues and expenses of the Local Council's budget; and
- Implement development projects and programmes of the Local Government.

This manual has been written in conformity with the Law No.7 of 18th September 2003 on the Laws of the District Councils of the Puntland State of Somalia and District Public Expenditure Management (PEM) Guidelines.

1.3 Issue and revision of Puntland Local Government Financial Management Manual

The Ministry of Interior shall be responsible for the issue and revision of Puntland Local Government Financial Management Manual. The revision of this manual may arise due to either adaption of another accounting policy or introduction of new procedures arising out of new legislation.

1.4 Organisation of this manual

This accounting manual contains the following chapters:

Chapter	Description
Glossary of definitions	This section provides definitions and meaning of words and phrases as used in the manual.
Acronyms and abbreviations	This section provides explanation for acronyms used.
1. Introduction	Outlines the financial management manual purpose and how it is regulated.
2. Financial control and administration and control	This section outlines the functions of a District finance department, the finance function organizational chart and the administrative tasks within a finance department.
3. Internal control	This section identifies various types of internal controls and the limitations of internal controls.
4. Budgeting	This section described the planning and budgeting process, budget revision and monitoring.

5. Revenue	This section describes revenue mobilisation, collection and recording. The section also identifies district borrowing, investments and debt write-off.
6. Expenditure	The section describes the expenditure cycle, including, commitments and payments as well as the vote book. The section also identifies procurement process of goods, services and works and processing of staff salaries.
7. Assets	This section described the procedures on fixed assets acquisition, recording, maintenance, depreciation, disposal and write-off.
8. Accounting and recording	This section identifies the basis of accounting and recording in the various books of accounts.
9. Financial reporting	This section identifies the legal reporting requirements and periodic financial statements.

1.5 Effective date

The manual becomes effective on the day of its approval by the Ministry of Interior and Ministry of Finance.

2 Financial administration and control

2.1 Functions of the department of administration and finance

The department of administration and finance is a service department to other departments of the District. All financial management issues, records, stores, assets and financial system are the responsibility of the department of administration and finance.

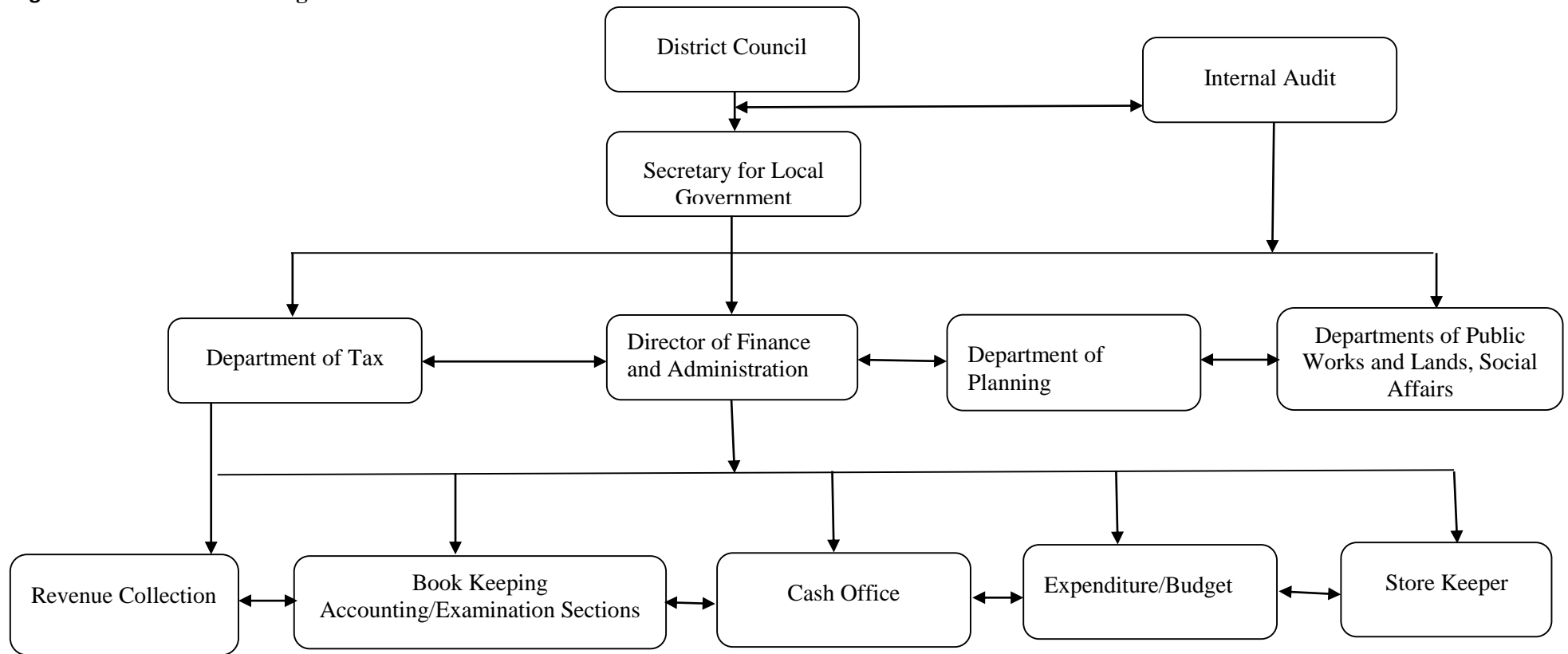
The functions of the department of administration and finance are, among others:

- (i) Budget preparation, monitoring and reporting;
- (ii) Receipt, control and accounting of the income of the District including development partners funding;
- (iii) Expenditure forecasts and monitoring, prioritisation of projects and activities for the purpose of financial allocations in the budget;
- (iv) Oversight of commitment of funds and expenditure trends;
- (v) Control and management of the expenditure of the District as well as assets and liabilities;
- (vi) Financial management and control of voted funds;
- (vii) Ensuring effective cash management;
- (viii) Maintenance of proper books of account and records of revenue, expenditure, assets, liabilities and financial reports; and
- (ix) Preparation of quarterly and annual accounts.

2.2 Recommended organisational chart for district finance administration

A District may have the following financial management organisational structure.

Figure F1: Recommended organisational chart for district finance administration



Note: Each District will follow this structure with modification as in the approved structure and the model structure applicable to them

2.3 Delegation of Authority

The Secretary for Local Government who is the Accounting Officer and responsible for management of district public money shall delegate some financial management authority to various district officials.

While the Secretary for Local Government delegates authority to various district officials he/she shall remain accountable to the District Council and Central Government (for conditional funds transfers).

The Secretary for Local Government shall delegate authority to:

- (i) Vote controllers; and
- (ii) Director of Administration and Finance.

2.3.1 Vote controllers

The Secretary for Local Government shall appoint vote controllers, the department heads (director) every year and issue them with Authority to Incur Expenditure (AIE) which will authorise the ceiling and use of funds (refer form E1, Departmental Warrant). The AIE holder/ vote controllers shall account to the Secretary for Local Government but may assign some responsibilities to other district officials under their departments.

2.3.2 Director of Administration and Finance

The Director of Administration and Finance (DAF) shall on behalf of Secretary for Local Government:

- (i) Control and management of District Councils' expenditure as well as assets and liabilities;
- (ii) Receipt, control and accounting of all District Council's income including development partners funding;
- (iii) Maintenance of proper books of account and records of revenue, receipts and other funds;
- (iv) Preparation of annual accounts;
- (v) Expenditure forecasts and monitoring, prioritisation of projects and activities for the purpose of financial allocations in the budget;
- (vi) Oversight of commitment of funds and expenditure trends;
- (vii) Budget preparation, monitoring and reporting;
- (viii) Financial management and control of voted funds;
- (ix) Producing cash flow budgets and statements; and
- (x) Ensuring effective cash management.

The DAF may assign responsibility for the above functions to various accounts/finance officers (Accountants, Cashiers and Assistant Accountants/Data Entry Clerks) but remains accountable to the Secretary for Local Government.

2.4 Records management

A Finance department shall maintain the following types of records and files:

- (i) Revenue records - Revenue registers, receipt books, tax ticket registers and assessment forms, files, revenue collection cashbooks;
- (ii) Expenditure records – Payment vouchers, payroll, vote books, abstracts, and ledgers;
- (iii) Asset records – Asset registers;
- (iv) Liabilities records - Commitment register;
- (v) Contracts with third parties;
- (vi) Cash records - bank transfer records, banking slips, receipts;
- (vii) Financial reports – Quarterly and annual financial reports and other statements; and
- (viii) Any other records prescribed by the law.

All payments made by a District must be recorded and filed in a serial-logical order. The DAF must ensure that all payment vouchers are supported by relevant documents including Local Purchase Orders (LPOs), delivery notes and invoices which shall be properly filed.

The financial records and books of account of the Districts must be managed properly so that they can be used efficiently, economically and effectively. The management of financial records involves planning, organising, directing and controlling the records function within the finance department functions. Financial records are a valuable property and must be managed from the time they are created or received up to the time they are destroyed.

It is important that one individual is assigned, within the finance department, to act as a records officer in order to place this responsibility on one officer. The selected person should be facilitated to get basic training in records management. However, this still remains a collective responsibility of all the District staff.

The DAF should ensure funds are budgeted for equipment, files and filing cabinets for the management of financial records.

2.4.1 Distribution of financial documents

Financial documents are sensitive and their distribution should be restricted and controlled. Procedures should be put in place for distribution of financial documents only through authorised channels and to ensure they reach the intended recipient. Documents which may land in wrong hands may be misused, leading to losses or other serious consequences for the District. Cheques, payment vouchers, supporting documents and books of accounts are quite sensitive and require careful handling.

However, some financial documents are public documents, such as, approved budget estimates and financial reports and should be accessible to the public.

2.4.2 Records retention and storage

The principal books of account and records shall be retained for a period of at least 10 years. However, the personnel records shall be retained for a period of at least 15 years. Any deviation from this retention and storage period shall be done with authority and permission of the Auditor General.

2.4.3 Retrieval of documents

- (i) A requisition should always be filled and appropriately approved by the records officer, when requesting for a particular file or record. To avoid people misusing sensitive materials, files could be marked as confidential. In this way they should not be released without appropriate authorisation.
- (ii) Each person who takes a file should be held personally liable for its custody and returning it for storage. Any file issued should be charged out to a particular borrower by recording the name of the borrower. The borrower must acknowledge by signing in a charge-out book/register.
- (iii) The charge-out register must indicate the date of returning the file.
- (iv) Files should always be followed up by checking the return of borrowed files within a reasonable time.

2.4.4 Destruction of books of account and records

Books of account and records cannot be kept by the District forever because this is not practical. Inactive documents and files have to be moved to an archive where they can stay for a limited number of years. The originals and copies of vouchers and used receipts may be destroyed after six years, provided they have been audited. Any destruction earlier than six years (but not less than four years) must first be approved by the Auditor General. No financial documents should be destroyed if there are any related outstanding audit queries or investigations. Destruction of records should be by burning or shredding. A record of documents destroyed shall be maintained in a format presented in Form 1 below.

**XXX DISTRICT
RECORDS RETENTION FORM**

File reference number	Name of record	Date produced	Retention period	Destruction Date	Secretary for Local Government signature

2.5 Management and control of safes, cash boxes and keys

2.5.1 Supply of safes and cash boxes

All safes and cash boxes must be obtained through the DAF who shall keep a register of safes and cash boxes clearly showing the location of each and the officer responsible.

2.5.2 Responsibility for original keys

An officer holding the original key to a safe or cash box is personally responsible for its safe custody and must remain present when the facility is opened or locked where double locking with separate keys exist.

2.5.3 Handing over and taking over

Where an officer holding the key to an administration safe or cash box hands over the key to another officer, the contents of the safe or cash box shall be checked by that officer and a handing-over certificate completed and any discrepancy by that officer reported to the DAF and the Head of Internal Audit.

It is the responsibility of the officer handing over a key to ensure that his or her successor is informed of the identity of any other key-holders and the location of the duplicate key.

2.5.4 Duplicate keys

The duplicate and triplicate keys, if any, of any safe or cash box must be enclosed in a separate sealed envelope with the description and details marked on the outside and handed over to the DAF for safe-keeping and the DAF shall keep a register of all deposits and withdrawals of keys.

2.5.5 Lost keys

The loss of the key of any safe or cash box, or any other equipment, shall be reported immediately to the DAF and Head of Internal Audit and the officer's immediate superior with a full explanation of the loss and any other key-holders must also be informed immediately.

The duplicate key shall be obtained only to open the container for removal and verification of the contents and the container may not thereafter be used until the lock has been altered and new keys provided.

The cost of altering or changing a lock and providing new keys may be charged to the officer responsible for the loss and shall also be held responsible for the loss of the contents of the container if the loss of key is caused through negligence.

2.5.6 Compromise of keys of locks

In the event of a key-holder having any suspicion that the keys of a strong-room, safe or cash box have been exposed to copying, or the locks interfered with, he or she shall take appropriate action.

2.5.7 Duplicate keys of altered locks

When a lock is altered the new duplicate key shall be kept and arrangements shall be made for the destruction of the old duplicate key.

2.5.8 Transfer of safes and cash boxes

Transfer of safes and cash boxes between departments and other locations shall be approved by the DAF.

2.5.9 Private monies

Officers are prohibited from keeping private money or effects in Administration strong-rooms, safes or cash boxes and any private money found in any container shall be credited to revenue at the direction of the inspecting officer.

2.5.10 Verification of contents

Every officer in charge of a safe or cash box shall check the contents daily and report any discrepancy to the DAF and the Head of Internal Audit.

2.6 Stores management

A District may procure goods such as stationery and other materials to be used by several departments on various activities. Each Head of Department (HoD) will control the ordering, storage, issuance and usage of stores materials through the Store Keeper, but the procurement of stores shall be conducted in accordance with the public procurement guidelines and the law. An efficient flow of materials can be achieved through strict use of work plans and projected estimated material requirements.

2.6.1 Receipt and issue of stores

The following are steps to be followed on receipt and issue of stores items:

- (i) On receipt of materials and supplies, the Store Keeper shall sign a delivery note as evidence of items received. The quantity and quality of goods must be checked and confirmed to be in order before the supplier's delivery note is signed. Shortages and returns if any must be notified to the supplier and the delivery note should be annotated to indicate this. The Stores Keeper will enter the items received on the relevant page of the stores record that contains the specific item received. The stores record is a record of stores received and issued out for each item shall be presented in the form F2 below.

Form F2: Stores record

XXX DISTRICT STORES RECORD

Item Description: _____

Date	Received			Issued			Balance	Remarks
	Receiving Form No.	Supplier	Units	To whom	Units/ number	Signature of recipient		

- (ii) In addition, a receiving form shall be maintained in a format presented in form F3 below as evidence of receipt of goods. A receiving form shall be completed and signed by the Store Keeper before the items are kept for safe custody. The original shall go to the supplier, the duplicate to process payment and the triplicate to remain in the book.

Form F3: Receiving form

**XXX DISTRICT
RECEIVING FORM**

Ref: _____

Date: _____

Received from _____ the items listed below as per
Local Purchase Order (LPO) no _____ issued on date (s)

No	Description	Quantity	Remarks
1			
2			
3			
4			

Name of person/agent received from

Name and signature of the person receiving

- (iii) The signed delivery note along with the copy of receiving form must be sent promptly to the DAF accompanied by a copy of the supplier's invoice.
- (iv) Where an invoice is submitted for part delivery, a photocopy of the LPO or contract shall be attached to the invoice for payment.
- (v) Staff members shall requisition stores on a written memo, which shall be authorised by the HoD and approved by the Secretary for Local Government before the Store Keeper can release items from the stores. The Store Keeper shall issue out the items and enter the details in the stores record. The Store Keeper shall prepare a store issue voucher, on which he/she will request the recipient to sign for the items being taken. A Store Issue Voucher shall be maintained in a format presented in form F4 below.

Form F4: Store issue voucher

Date: _____

Issue to: _____

No	Description	Quantity	Remarks
1			
2			
3			
4			

Signed: _____ Received by: _____

Issuing Officer: _____ Title: _____

-
1. Original to receiver
 2. To remain in book

The Store Keeper shall cross out the request immediately thereafter to prevent its being reused in issuing out more items; the crossed out stores request will then be filed by the Store Keeper in a file for future reference, accountability and audit if any.

2.6.2 Stock taking

The Store Keeper shall carry out quarterly physical stocktaking and shall prepare a stores report, which will be verified by accounts staff before being sent over to the DAF. The stocktaking shall be conducted by physical count of stock items and comparison of physical quantity with the amount shown on the stores record. Differences between the stores record and the stock taking results shall be reconciled and investigated before write-off can be carried out. Where losses have been caused by District officials, the DAF shall take action in line with the applicable Human Resources guidelines.

3 Internal control

3.1 Overview of internal control

Internal controls refer to the systems devised by the Secretary for Local Government to help ensure the District's objectives are achieved in a manner that promotes economical, efficient and effective use of resources. Internal controls are defined as the whole system of controls, financial or otherwise established by management to secure as far as possible the accuracy and reliability of records and the security of assets.

The internal controls as a process are designed to provide reasonable assurance regarding the following:

- (i) the reliability and integrity of information;
- (ii) compliance with policies, laws, regulations and procedures;
- (iii) the economic and efficient use of resources;
- (iv) the safeguarding of assets; and
- (v) the accomplishment of established objectives.

Internal control systems are therefore fundamental to the success and survival of Districts.

It is vital to have effective and operational control systems, in order to safeguard resources of Districts. These controls must be reviewed and updated on a regular basis to ensure that they are operational and being complied with.

A good system of internal controls is a system of checks and balances, put in place to safeguard assets and manage risks. Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records.

Internal audit is an independent monitoring activity established by management and the District Council for the review of accounting and internal control systems of the District. Internal auditors should perform regular checks on the internal controls and report on whether such systems and operations are efficient, effective and economical and free from fraud and other malpractices.

There two types of controls namely accounting and administrative controls.

3.2 Accounting controls

Accounting controls refer to controls that deal with the efficiency of the accounting system. These controls are set to achieve the following objectives:

- (i) Physical access to assets and financial records only when authorised;
- (ii) Authorisation of all transactions;
- (iii) The prompt and correct recording of transactions/events; and

- (iv) The confirmation of the existence of recorded assets.

The first two are intended to protect the assets of a Districts from being misused, lost or stolen. The next two are meant to ensure that the accounting records are accurate and complete and that they tally with the actual existence of the assets.

The following accounting controls should be in place at the minimum.

- (i) **Approval and control of documents** - All transactions should be properly authorised by the Secretary for Local Government through the DAF and also HoDs. This prevents staff from embezzling funds and also prevents other irregularities.
- (ii) **Segregation of duties** - This requires that one and the same employee should not be allowed to handle a transaction from its initiation to final disposal. For example, one employee should not be allowed to register trade license taxpayers, assesses them, collect the money from them and record the transaction in accounting records as well as being the cashier. Segregation requires clear delegation of tasks.
- (iii) **Reconciliation statements** - It involves reconciling the main accounting records to supporting documents. An example is a regular monthly reconciliation of the bank statement to the cashbook to ensure that all transactions are correctly recorded. Reconciliation should be performed by persons who are independent of creating the records in the first place.
- (iv) **Internal check** - This is linked to segregation of duties. The actions of one employee should be checked on by another employee. For example, a senior officer will check on the daily cash collections by each revenue collector to ensure that they are in agreement with the tax tickets or receipts issued by the collector.
- (v) **Comparison of internal with external data** – External data is in most cases more reliable than the internal data. For example, a supplier statement balance may be deemed more accurate than the data in the accounting system relating to that supplier.
- (vi) **Serially numbering of all accounting documents** – This ensures that the sequence is properly accounted for and any gaps noted are well supported.
- (vii) **Maintenance and review of control accounts** – Control accounts should be regularly reviewed and reconciled when need be.
- (viii) **Access** – Unauthorised access to accounting records and cash must be forbidden and prevented. For example, access to receipt books should be limited to authorised employees only.

3.3 Administrative controls

Districts deal in many transactions which involve employees, politicians and taxpayers. Therefore further controls must be put in place to ensure that management policies and orders are effectively carried out. These controls have the following objectives: promotion of efficient operations by reducing waste and duplication of effort; and encouraging compliance with District policies and procedures. The following administrative controls should be in place at minimum:

- (i) Quality controls;
- (ii) Personnel procedures for recruiting and retaining employees;
- (iii) Performance statistics that check to ensure operations are running smoothly;
- (iv) Stated conflict of interest policy; and
- (v) Annual leave and job rotation.

3.4 Limitations of internal controls

Although a strong system of internal control is desirable, it can only provide Districts with reasonable assurance that their objectives are reached rather than complete assurance.

This is because there are limitations, which are inherent within internal control system.

Management should guard against the following limitations:

- (i) Staff may collude internally or with outsiders to circumvent the controls;
- (ii) Controls may be abused by those with authority, for example, a manager responsible for authorising a transaction may intentionally authorise a wrong transaction;
- (iii) It is always a requirement that the cost of internal control is less than the potential loss, which would arise if the control is not in place. Therefore, some controls may not be implemented because they are too costly, for example, segregation of duties in a small District;
- (iv) Controls may fail to work due to human error. For example, where a chairperson of a District signs a contract innocently when he/she is not authorised to do so;
- (v) Internal controls only cover routine transactions. Non-routine transactions are not normally covered; and
- (vi) Procedures may change over time and this may render internal controls inadequate if they are not updated regularly.

4 Budgeting

4.1 Introduction

A budget is a detailed annual plan of how much revenue the District will raise and how that revenue will be spent in line with the District's objectives, needs and priorities. Budgets are monetary quantifications of District plans and as such, are derived from the Districts Development Plans (DDP).

District budgeting involves consultations and negotiations between the District leadership, Councilors and various relevant stakeholders, compilation of planning and budgeting inputs from departments, preparation of the District Budget Framework Paper, public meetings, the prioritisation process and eventually reading and approval of the next financial year budget by the Council.

4.1.1 Legal context

District budgeting is provided for mainly in Article 33 of the Law No.7 of 18th September 2003 on the Laws of the District Councils of the Puntland State of Somalia. Districts have the right and obligation to formulate, approve and execute their budgets and plans provided the budgets shall be balanced.

4.1.2 Compliance with national priorities

Districts must operate realistic budgeting through an integrated five year budgeting and planning framework by recognising national priorities and also focus on intended results of expenditure by setting objectives, targets and measuring performance.

4.1.3 Why districts budget?

Districts must produce a budget because:

- (i) it is a legal requirement;
- (ii) Districts have scarce resources which are not sufficient to carry out all its programmes and projects;
- (iii) of the need to identify and disclose sources of income;
- (iv) in order to cost the activities, programmes and projects to be implemented;
- (v) in order to requisition for funds to implement approved programmes and projects;
- (vi) in order to control the implementation of various activities and programmes so that a particular programme does not encroach on the resources of others;
- (vii) it is a requirement of good governance and a political tool that provides overall guidance; and

- (viii) it is an information/communication tool to the Central Government and donors detailing how transfers to the District will be utilised, and whether compliance with donor and national objectives is being met.

4.2 The District Budget Framework Paper

The District Budget Framework Paper (DBFP) is a tool that enables integrated planning and budgeting, articulating a District's five year budget strategy. The DBFP contains the District profile, revenue and sector/departmental performance, three year indicative sector/departmental allocation targets, annual work plan and budget estimates.

The draft budget estimates, revenue and sector/departmental performance, three year indicative sector/departmental allocation targets shall be derived from the district three year rolling plan. In accordance with the provisions of PEM, the work plan shall be derived from the approved budget estimates.

4.2.1 Functions of the DBFP

Functions of the DBFP include the following:

- a) It gives a District profile;
- b) Shows previous financial year's revenue performance against the revenue budget estimates and revenue projections for the next three years;
- c) Shows sector/departmental performance in previous financial years measured against set performance targets;
- d) Provides indicative allocations and sector/departmental objectives and performance targets for the next three years;
- e) Shows sector/departments un-funded priorities and reallocations of funding;
- f) Provides the draft annual work plan and budget estimates;
- g) Provides information and a monitoring tool for Central Government to ensure that national priorities are being adhered to; and
- h) Overall the DBFP if properly prepared and used, provides the decision makers in the District (Councilors) with the information required to make the decisions that link up inputs and activities with intended results as set out in the national priority programmes.

4.2.2 Producing the DBFP

Preparing the DBFP is an important stage of the budget process and the key players involved are the Planning, Finance and Administration departments and the Executive Committee. The other key players are the members of budget committee and HoDs who are charged with the responsibility of preparing their departmental budgets.

4.2.3 The DBFP contents

The following are the contents¹ of DBFP

- a) Executive summary
- b) Chapter 1 – Review of revenue performance and medium term revenue projections. This chapter details the medium term revenue performance and projections for five financial years. This should be presented as in table B1, the DBFP form, shown below.

Table B1: The DBFP form

Code	Source	Year X+1 (NB: Year X, budget year)		Year X+2			Year X+3		Year X+4		Year X+5	
		Budget	Realised Pl Shs '000	Performance % Realised/ Budget	Budget Pl Shs '000	Realised (To Dec X+2) Pl Shs '000	Performance Realised/ Budget %	Projected Pl Shs '000	% of Total Projection	Projected Pl Shs '000	% of Total Projection	Projected Pl Shs '000
	Local Revenue											
	CG Grants/ Transfer											
	Donor/ NGOs Funds											
	Total											

- c) Chapter 2 – Sector/departmental performance.
This chapter sets out historical performance to provide context for future expected performance. Presents an overview of the overall district's past expenditure against budget, sectorial/departmental expenditure and output performance, major past achievements and challenges.
- d) Chapter 3 – Medium Term objectives, priorities, outputs and expenditure allocations.

¹ Contents of the DBFP may be changed if there for is a need for Districts to include in other important topics.

This chapter contains the medium term sector objectives, priorities, outputs derived from the district's DDP and expenditure allocations. It is from the sector objectives that achievable outputs/outcomes based on resources available are derived.

The formats for medium term sector budget allocations and output targets are illustrated (Illustration B1& B2) below.

Illustration B1: Medium Term Sector Expenditure Budget Allocations

Department/ Sectors	FY, X – 1		FY, X – 0		FY, X +1	FY, X+2	FY, X+3
	PI Shs		PI Shs		PI Shs	PI Shs	PI Shs
	Budget '000	Spent '000	Budget '000	Spent to date '000	Projected '000	Projected '000	Projected '000
1. Water sector	2,000	1,500	2,500	2,000	3,000	4,500	6,000
2. Roads Sector	4,000	3,800	4,500	4,000	5,000	6,000	7,000
3. Health	6,000	5,500	7,000	6,000	7,000	8,000	9,000
Department Total	12,000	10,800	14,000	12,000	15,000	18,500	22,000

From the above sector expenditure budget the following (illustration B2 below) medium – term sector outputs can be expected;

Illustration B2: Medium Term Sector output targets

Out put	FY – 1		FY – 0		FY 1	FY 2	FY 3
	Target	Achieved	Target	Achieved to date	Projected	Projected	Projected
(Water) Borehole	70	62	94	48	120	130	150
(Roads) Km feeder roads	200	150	250	170	300	400	500
(Health) No. of Heath centers built	5	3	8	6	10	12	15

(Chapters 1, 2, and 3 are to be produced between June and August by the Planning Department before drafting the district's annual budget)

- e) Chapter 4 – The draft budget. This chapter presents the annual budget for all sectors/departments for the financial year.
- f) Chapter 5 – The draft annual work plan. This chapter presents the annual work plan for the sectors/departments for the ensuing financial.

4.2.4 Relationship between the DBFP, DDP, budget and the annual work plans

- (i) The DDP contains all activities (numbered) for implementation in the following financial year; whether funded by Central Government, bilateral donors or local revenue.
- (ii) District budgeting is based on the activities that appearing in the DDP.
- (iii) The district annual work plan is based on DDP activities.
- (iv) Each activity in the DDP will have its own work plan and budget.
- (v) The DBFP summaries the key elements and aggregate annual allocations and outputs.

4.3 The planning and budgeting process

The financial year of Local Government runs from 1st January to 31st December and it involves budget implementation, planning and budgeting. The key budget process players and stakeholders are presented in Table B2, below.

Table B2: District budget process key players and stakeholders and their roles

Stakeholders	Roles
1. Ministry of Interior and Ministry of Finance	Responsible for managing the Local Government budget process nationally and setting national policies and guidelines to be applied during the process.
2. Ministry of Interior	Issues budget call circular to kick-start the budget process.
3. Ministry of Finance	Advises on all Central Government allocations to Districts.
4. District Council	<ul style="list-style-type: none"> • Sets policy objectives and determines the development goals of Districts. • Approves the Annual Work Plans and Budget (AWPB). • Ensures the budget is implemented according to priority areas.
5. The Mayor, The Executive Committee/ Permanent Council/ Economic and Development Sub-Committee and Planning Department	<ul style="list-style-type: none"> • Reviews costed priorities. • Recommends policy to Council. • Oversees implementation of Council policies. • Evaluates performance against approved work plans.

Stakeholders	Roles
6. The Mayor, Secretary for Local Government	<ul style="list-style-type: none"> • Oversees revenue collection and incurrence of expenditure according to approved budget. • Oversees budgeting and budgetary control to ensure that planned activities proceed within the prescribed framework. • Makes reports to the Executive Committee on the implementation progress of activities and projects. • Gives technical guidance to Council.
7. The Budget Committee, planning and finance departments	<ul style="list-style-type: none"> • Prepares the draft budget which must be balanced • Provides technical input to make revenue projections • Assists Heads of Departments in preparation of their departmental budgets and work plans • Ensures District departments observes the formal requirements for the budget including deadlines
8. Heads of Departments	Formulate departmental work plans and budgets

4.4 Pre-conditions for successful District budgeting

- (i) The preparation process has to be consultative and participatory in order to ensure ownership to both processes and the approved budget.
- (ii) A systematic process of prioritization of programmes and expenditures, which is based on informed choices, must take place.
- (iii) Planned outputs, activities, and expenditure allocations in the annual work plan and budget estimates must be realistic, and achievable.
- (iv) Revenue estimates should be realistic.

The criteria for successful budgeting process:

- (i) The District Council should be at the center of the budget process so as to avoid monopolised and biased prioritisation and expenditure choices.
- (ii) Sufficient time must be reserved for participation and dialogue between relevant stakeholders and for public hearings.

- (iii) Councilors must be provided with well-arranged and accessible budget material that gives a clear financial overview of past financial and output performance and the current and anticipated financial position of the District.
- (iv) Clear linkages between development plans and the budget, including recurrent cost implications of capital investments and development projects must be catered for.
- (v) Possible scenarios and the consequences of different choices should be provided as a basis for political discussion and decision-making.

4.5 Stages and steps of budget calendar/process

4.5.1 Budget process/stages

The budgeting process starts after completing the planning stage with the approval of the budget by District Council. The District budget activities² include:

- (i) National guidance;
- (ii) District Public Expenditure Review (PER);
- (iii) Forecast revenue;
- (iv) Prioritise projects and then draft the budget;
- (v) Initial budget review; and
- (vi) Final budget approval by council.

The budget stages are sub-divided into steps presented in table B3 (budget calendar) below.

4.5.2 Key elements of the budget process

The two main principles behind the District budgeting system are:

- a) Realistic budgeting through an integrated three-year budgeting and planning framework involves:
 - Three year rolling development planning and budgeting;
 - Preparation and updating of three-year development plans, which are fully integrated with the budgeting process; and
 - Planning and budgeting must be carried out within expected revenues over the medium term.

² Refer for details to District Public Expenditure Management (PEM), Budgeting and Investment Programming module, 2012, pages 13 to 25

b) Focusing on the intended results of expenditure.

The objectives of expenditure must be clearly stated and measurable targets set. The achievement of service delivery and investment performance targets must be linked to specific expenditures in the budget so that the efficiency of the expenditure choices can be assessed and problems identified.

4.5.3 Districts' budget calendar

District's planning and budget preparation takes place between June and December³. The budget process/calendar is part of the PEM cycle, is a schedule of events which every District should accomplish to complete its budget and the dates on which, or no later than which, these actions may occur. The calendar (presented in table B3, below) contributes to effective administration of the budget process.

Table B3: District proposed budget/process calendar

Timing	Activity/event/step	Responsibility Centre	Output
September	1. National guidance; District budget conference of key stakeholders is organised to discuss national and District priorities, Central Government, NGO and donor funding.	Executive Committee and Planning department	<ul style="list-style-type: none"> • National and District priorities identified. • Indicative Planning Figures (IPF) of proposed Central Government transfers/donor and NGO funding.
September	2. District Public Expenditure Review (PER); District analysis of previous year's expenditure performance in implementing the district previous year's budget and assessing district spending against set objectives and targets is carried out.	Planning and Administration and Finance departments to carry out the expenditure performance analysis.	Finance performance report submitted to Executive committee and Economic and Development Sub-committee.

³ Refer for to District Public Expenditure Management (PEM), Budgeting and Investment Programming module, 2012, pages 15

Timing	Activity/event/step	Responsibility Centre	Output
September	3. Forecast of revenue and expenditure for coming year; a revenue forecast for coming year for all districts own source revenue is prepared.	Director Tax Department, DAF, Director of Planning.	Coming year revenue forecast.
September	4. Expenditures estimations for all departments, sections and units for the coming year, including recurrent and capital expenditure and on-going budget commitments are produced.	DAF and Director of Planning.	Coming year expenditure estimations
September	5. Prioritise projects; Projects proposed by the sectors and District departments are listed and prioritised. Project appraisal/feasibility studies where needed done and costing information secured from relevant authorities.	HoDs and Executive Committee.	District's coming year project priority list.
October	6. Drafting of District budget; the overall District budget is compiled from the individual departmental budget estimates	Planning and Administration and Finance departments.	First draft District budget produced for review.
October	7. Initial budget review; Examination of the overall budget based on sector	Executive Committee.	Second draft District budget produced

Timing	Activity/event/step	Responsibility Centre	Output
	priorities, department assessments and prioritised projects is done.	Planning department	
October	8. Communication of budget to village committees; Budget document is communicated to community representatives through meetings, publicising on public noticeboards and any feedback resulting from this is incorporated in the draft budget.	Executive committee , Planning department.	Village Council's comments on the draft budget.
October	9. Final budget approval by council; Budget document is revised based on feedback from village councils and other stakeholders. The final draft budget is presented to council for approval.	Executive council, Planning department	Approved budget

4.5.4 District Public Expenditure Review

The District Public Expenditure Review (PER) shall be carried out by the DAF and Director of Planning during the month of September. Analysis of previous year's expenditure performance in implementing the District previous year's budget and assessing District spending against set objectives and targets (objectives and targets as indicated in relevant work plans) shall be carried out for each department.

The expenditure performance analysis report shall be produced and submitted to Executive Committee and the Economic and Development Sub-Committee for action.

4.5.5 Forecast/estimating the resource envelope for coming year

District budget estimates should be based on realistic estimates of the revenue receivable from Central Government, to be collected from District Own Source Revenue (OSR) and other sources. Resource items shall be estimated/projected by the Planning and Administration and Finance department staff according to in the following steps:

- Step 1: Directors of Planning and Finance review all current known sources of resources for the District item by item and determine the continued availability of these sources. Remove any revenue source which is unlikely to continue being available.
- Step 2: Directors of Planning and Finance review new sources of resources, if any, to which the District may be entitled in the coming year. It is important that District officials do not limit their analysis simply to the monies obtained for Central Government, and other existing revenue sources, but also consider realistic potential future revenue sources and unused current options for revenue mobilisation
- Step 3: Secretary for Local Government obtain approval for new OSR. Any new own revenue sources shall be presented to the district council for approval. The process of collecting revenue from a new source will be formally legalised.
- Step 4: Directors of Planning and Finance estimate resources by applying the confirmed sources: From the departmental/sectoral plans and budgets, extract resources of the for activities to be handled by departments at the district level; indicative budget figures to be received from the Central Government in respect of grants can be obtained from the Central Government (national budget provisions); and confirmed transfers from memorandums of understanding signed between the district and Non-Governmental Organisation (NGO)/ international donors – these should be included directly by quoting the “official figure”

When making revenue estimations District officials shall take a *conservative position* i.e. assume the worst collection environment and thus estimate the lowest resources that can realistically be collected from a given source.

With regards to revenue/expenditure forecast, the following should be taken into account: national budget contributions; and the development of annual work plan and budget.

4.5.6 Forecast of expenditure

After compiling data on the forecast of revenue/resource envelope, estimates and ascertaining the resource envelope, District officials should project expenditure by taking the following steps:

- Step 1: Directors of departments, sections and unit heads, review all existing expenditure items. It is normally appropriate to use the projection factors derived from the trend analysis on previous expenditure items in the previous budget performance reports as a starting point and then consider the general economic conditions in the locality, nationally and even internationally to adjust the historical figures
- Step 2: Directors of departments, sections and unit heads, estimate expenditure by applying the known costs, for example, new salary structures announced by the Government, prices announced by the suppliers, agreed service level changes, changes in unit costs for service contracts, capital projects contracts entered into and annual work plan.

Step 3: Directors of departments, sections and unit heads, allow for possible price increases during the budget year. The expected rate of inflation is the main determinant here but there may be other specific issues such as where a closure of the shortest supply route can result into the use of a longer route.

Step 4: Directors of departments, sections and unit heads, estimate the expenditure for individual items, activities, programmes and departments: take the projected unit cost and multiply it with the number or volume. The estimated cost of each activity is obtained by adding up the estimated costs of individual expenditure items for that activity. The estimated cost of programs or projects is obtained by simply adding up the estimated costs of the individual activities planned within each program and, the estimated cost of a department or a section shall be obtained by adding up the estimated cost of programs in that department or section or the individual estimated cost items.

Step 5: Director Planning and Director Finance Compare the projected total expenditures to projected total resource envelope, district officials shall do this before proceeding any further because only limited funds are available to allocate for the competing and usually unlimited services of a district. The District must be able to pay for its budgeted services and it is not possible for it to operate a deficit budget as this is forbidden.

When estimating expenditure items, District officials should take a *non-conservative position*; thus expenditure estimates should be the highest *realistic unit cost* expected for each item. This is because underestimating unit costs will seriously disrupt planned service delivery. However, being non-conservative does not mean exaggerating costs beyond reasonable increases.

4.6 Drafting and compiling the District budget

All District officials (Planner and Finance officers) involved in preparing the detailed district revenue and expenditure (cost) estimates shall keep files containing the working papers on the details of the projections/estimates made and explanations of how these projections were arrived at. The Planner and Finance officers should review the working papers and extract the relevant revenue and (cost) estimated figures in order to compile the overall budget taking the following steps:

Step 1: After observing and completing steps (1-4 in topic 4.6.5 above) of estimating the revenue envelope the Head of Planning department and the DAF shall compile a list of the resources budget estimate. This list presented below in table B4 to be used to indicate all those monies necessary to be raised in the ensuing year; the resource envelope.

Table B4: Revenue budget estimation/forecast Form

Item Code	Description (Revenue item head/name)	Estimates FY. X	Projected FY.X+1	Projected FY.X+2	Projected FY.X+3	Projected FY.X+4
	Central Government transfers					
	Total Conditional transfers					
	Total Non-Conditional transfers					
	Total donor funding					
	Total NGO funding					
	Districts Own Source Revenue					
	Commercial licenses tax					
	Livestock sales tax					
	Entertainment tax.					
	Agricultural tax.					
	Buildings value tax					
	Land value tax					
	Temporary structures tax.					
	Street markets tax.					
	Transfer tax.					
	Abattoir and butchery tax.					
	Water reservoirs tax					
	Skin and hide tax					
	Registration tax.					
	People registration tax					
	Projects tax					
	Others (specify)					
	Total District Own Source Revenue					
	Total Revenue					

Step 2: The Secretary for Local Government shall issue out a Budget Form, presented below as table B5 (the Expenditure Budget Estimation) to heads of departments, sectors, and units they will then complete it by inserting the estimate of money required to operate their sectors by entering the detailed *line items* in the columns for code, description and budget amount as follows:

- (i) Enter data on salaries and wages directly by using the payroll data and any other information provided in the budget call circular;
- (ii) Enter data for supplies including office supplies, operation supplies, repairs and maintenance;
- (iii) Enter data for other services and charges required to run the sector; and
- (iv) Enter data for capital outlays such as purchase of land, buildings, motor vehicles, machinery and equipment.

Table B5: Expenditure (recurrent/capital development) Budget Estimation Form

Item Code	Description	Budgeted Amount	
		Recurrent	Development
Administration and Finance Department/Sector/ Unit.....			
Public Works and Land Department/Sector/ Unit.....			
Tax Department/Sector			
Social Affairs Department			
Planning Department			
Internal Audit Department			

Step 3: The District Director Planning and the DAF would then draft/compile the overall budget of the District by using the data from the Budget estimation Forms, table B4 & B5 above. The overall draft budget shall include:

- (i) A revenue budget;
- (ii) The recurrent budget; and
- (iii) Development budget.

4.7 The District budget format/contents

According to the Puntland Local Governments Finance Policy⁴ the recurrent and capital development budgets are to be divided into programmes, sub programmes and items. The programme is what is referred to as a sector or department, and the sub-programme as a sub-sector or section or units.

4.7.1 Contents of District budget estimates

The District budget estimates document for presentation to the District Council for approval to consist of the following chapters:

- (i) Background to the budget;
- (ii) Summary of the current budget statement (revenue and expenditure). The format for the summary of current budget statement is presented below in Table B6:

Table B6: Summary of current budget statement

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
	REVENUE			
	Own Revenue Sources			
	1. Taxes			
	2. Licenses, Fees, and Permits			
	3. User Charges / Tariffs			
	4. Rents			
	5. Fines and Penalties			
	6. Other Own Revenue			
	Sub-Total Own Revenue			
	Transfers and Grants for Current Budget			
	1. Central Government Transfers for Current Budget			
	2. External Transfers and Grants for Current Budget			
	3. Contributions for Current Budget			
	Sub-Total Transfers and Grants for Current Budget			
	Other Revenue for Current Budget:			
	1. Loans for Emergencies for Current Budget			
	2. Other Current Revenue			
	Sub-Total Other Revenue for Current Budget			
	TOTAL RECURRENT REVENUE			
	CURRENT EXPENDITURE			

⁴ Refer to chapter 5 of the Puntland local Government Finance Policy, 2016.

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
	Operations and Maintenance of General Administration			
	1. Operations of General Administration			
	2. Maintenance and Repairs for General Administration			
	Sub-Total Operations and Maintenance of General Administration			
	Operations and Maintenance of Services			
	1. Urban Roads and Sidewalks			
	2. Health Services			
	3. Education and Vocational Training			
	4. Solid Waste Management			
	5. Public Markets			
	6. Slaughterhouses, Abattoirs, and Kennels			
	7. Water Supply			
	8. Electricity and Public Lighting			
	9. District Security / Policing			
	10. Urban / Town Zoning and Planning			
	11. Agricultural Extension Services			
	12. Public Transport			
	13. Other Services (any other services to be provided by the district from 13.1 to 13.N)			
	Sub-Total Operations and Maintenance of Services			
	Transfers and Grants/Subsidies			
	1. Transfers for National Security			
	2. Grants/Subsidies for the Needy			
	3. Grants/Subsidies for Institutions and Organizations			
	4. Other Grants/Subsidies (from 4.1 to 4.N)			
	Sub-Total Transfers and Grants/Subsidies			
	Debt Service Obligations			
	1. Internal Loans for Emergencies			
	2. External Loans for Emergencies			
	Sub-Total Debt Service Obligations			
	TOTAL CURRENT EXPENDITURE			
	<i>Surplus or Deficit in Current Budget</i>			

(iii) Revenue budget;

- (iv) Recurrent budget; and
- (v) Capital/development budget.

4.7.2 Revenue budget

The revenue budget in a tabular format (shown below in Table B7) indicates the following details: (1) account code, from Chart of Accounts (CoA); (2) account description/name; (3) the actual amount collected for the previous year, derived from previous year's end of FY accounts statements; (4) the approved budget for the current financial year, derived from the completed revenue estimation table B4; and (5) the executed current year budget, derived from current year budget.

Table B7: Revenue Budget

Budget Code (1)	Description (2)	Executed Previous Year X-1 (3)	Approved budget Current Year X+1 (4)	Executed Current Year approved budget FY X (5)
	REVENUE			
	Own Revenue Sources			
	1. Taxes:			
	1.1 Livestock Taxes			
	1.2 Property Taxes			
	1.3 Agricultural Production / Cultivation Taxes			
	1.4 Utility Taxes			
	1.5 Other Taxes (from 1.5.1 to 1.5.N)			
	Sub-Total Taxes			
	2. Licenses, Fees, and Permits:			
	2.1 Business Licenses			

4.7.3 Recurrent budget estimate

The format of the recurrent budget statement is shown below in table B8.

Table B8: District recurrent Budget Format

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
		_____	_____	_____
	REVENUE			
	Own Revenue Sources⁵			
	1. Taxes:			
	1.1 Livestock Taxes			
	1.2 Property Taxes			
	1.3 Agricultural Production / Cultivation Taxes			
	1.4 Utility Taxes			
	1.5 Other Taxes (from 1.5.1 to 1.5.N)			
	Sub-Total Taxes			
	2. Licenses, Fees, and Permits:			
	2.1 Business Licenses			
	2.2 Hawkers and Traders Licenses			
	2.3 Commercial Signs Boards			
	2.4 Personal Registration/Census Fees			
	2.5 Other Licenses, Fees, and Permits(from 2.5.1 to 2.5.N)			
	Sub-Total Permits, Licenses, and Fees			
	3. User Charges / Tariffs:			
	3.1 Public Transport			
	3.2 Garbage Collection			
	3.3 Slaughterhouses			
	3.4 Other User Charges / Tariffs(from 3.4.1 to 3.4.N)			
	Sub-Total User Charges / Tariffs			
	4. Rents:			
	4.1 Public Markets			
	4.2 Other Rents from Local Government Assets (from 4.2.1 to 4.2.N)			
	Sub-Total Rents			
	5. Fines and Penalties:			
	5.1 Fines and Penalties (from 5.1.1 to 5.1.N)			
	Sub-Total Fines and Penalties			
	6. Other Own Revenue:			

⁵ Proportion for current budget.

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
	<i>6.1 Other Own Revenue (from 6.1.1 to 6.1.N)</i>			
	Sub-Total Other Own Revenue			
	Sub-Total Own Revenue			
	Transfers and Grants for Current Budget			
	1. Central Government (CG) Transfers for Current Budget:			
	<i>1.1 Revenue Sharing in CG Taxes for Current Budget</i>			
	<i>1.2 Grants from CG for Current Budget</i>			
	<i>1.3 Sectoral Transfers for Specific Current Expenditures</i>			
	<i>1.4 Other CG Transfers and Grants for Current Budget (from 1.4.1 to 1.4.N)</i>			
	Sub-Total CG Transfers for Current Budget			
	2. External Transfers and Grants for Current Budget:			
	<i>2.1 Grants from Donors for Current Budget</i>			
	<i>2.2 Other External Transfers and Grants for Current Budget (from 2.2.1 to 2.2.N)</i>			
	Sub-Total External Transfers and Grants for Current Budget			
	3. Contributions for Current Budget:			
	<i>3.1 Contributions from Private Sector for Current Budget</i>			
	<i>3.2 Other Contributions for Current Budget (from 3.2.1 to 3.2.N)</i>			
	Sub-Total Contributions for Current Budget			
	Sub-Total Transfers and Grants for Current Budget			
	Other Revenue for Current Budget:			
	1. Loans for Emergencies for Current Budget:			
	<i>1.1 Internal Loans for Emergencies</i>			
	<i>1.2 External Loans for Emergencies</i>			
	Sub-Total Loans for Emergencies for Current Budget			
	2. Other Current Revenue:			
	<i>Other Current Revenue (from 2.1 to 2.N)</i>			
	Sub-Total Other Current Revenue			

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
	Sub-Total Other Revenue for Current Budget			
	TOTAL RECURRENT REVENUE			
	CURRENT EXPENDITURE			
	Operations and Maintenance of General Administration			
	1. Operations of General Administration			
	<i>1.1 Payments for Human Resources</i>			
	<i>1.2 Office Supplies and Materials</i>			
	<i>1.3 Utilities</i>			
	<i>1.4 Transport, Fuels and Oils, and Related Expenses</i>			
	<i>1.5 Rents</i>			
	<i>1.6 Training</i>			
	<i>1.7 Other Operational Expenditures (from 1.7.1 to 1.7.N)</i>			
	Sub-Total Operations of General Administration			
	2. Maintenance and Repairs for General Administration			
	<i>2.1 Fixed Assets of General Administration</i>			
	<i>2.2 Movable Assets of General Administration (e.g., vehicles, office equipment)</i>			
	<i>2.3 Other Maintenance and Repairs (from 2.3.1 to 2.3.N)</i>			
	Sub-Total Maintenance and Repairs for General Administration			
	Sub-Total Operations and Maintenance of General Administration			
	Operations and Maintenance of Services			
	1. Urban Roads and Sidewalks			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Urban Roads and Sidewalks			
	2. Health Services			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Health Services			
	3. Education and Vocational Training			
	<i>Expenditures for Operations</i>			

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Education and Vocational Training			
	4. Solid Waste Management			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Solid Waste Management			
	5. Public Markets			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Public Markets			
	6. Slaughterhouses, Abattoirs, and Kennels			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Slaughterhouses, Abattoirs, and Kennels			
	7. Water Supply			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Water Supply			
	8. Electricity and Public Lighting			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Electricity and Public Lighting			
	9. District Security / Policing			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total District Security / Policing			
	10. Urban/Town Zoning and Planning			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Urban/Town Zoning and Planning			
	11. Agricultural Extension Services			

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Agricultural Extension Services			
	12. Public Transport			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Public Transport			
	13. Other Services (from 13.1 to 13.N)			
	<i>Expenditures for Operations</i>			
	<i>Expenditures for Maintenance and Repairs</i>			
	Sub-Total Other Services			
	Sub-Total Operations and Maintenance of Services			
	Transfers and Grants/Subsidies			
	1. Transfers for National Security (from 1.1 to 1.N)			
	2. Grants/Subsidies for the Needy			
	<i>2.1 Grants / Subsidies for Poor</i>			
	<i>2.2 Grants / Subsidies for Street Children and Orphans</i>			
	<i>2.3 Other Grants / Subsidies for the Needy (from 2.3.1 to 2.3.N)</i>			
	Sub-Total Grants/Subsidies for the Needy			
	3. Grants/Subsidies for Institutions and Organizations			
	<i>3.1 Grants / Subsidies for the Region</i>			
	<i>3.2 Grants / Subsidies for Mosques and Kor'anic Schools</i>			
	<i>3.3 Grants / Subsidies for Civil Society Organizations</i>			
	<i>3.4 Other Grants / Subsidies for Institutions and Organizations (from 3.4.1 to 3.4.N)</i>			
	Sub-Total Grants/Subsidies for Institutions and Organizations			
	4. Other Grants/Subsidies (from 4.1 to 4.N)			
	Sub-Total Transfers and Grants/Subsidies			
	Debt Service Obligations			
	1. Internal Loans for Emergencies			

Budget Code	Description	Executed Previous Year FY	Approved Current Year FY	Executed Current Year FY
	2. External Loans for Emergencies			
	Sub-Total Debt Service Obligations			
	TOTAL CURRENT EXPENDITURE			
	<i>Surplus or Deficit in Current Budget</i>			

The recurrent budget in a tabular format (shown below in illustration B3) indicates the following details: (1) account code from COA; (2) account description/name; (3) the actual amount spent for the previous year, derived from previous year's end of FY accounts statements; (4) the approved budget for the current financial year, derived from the completed recurrent expenditure estimation form (as presented in table B5 above); and (5) the executed current year budget, derived from current year budget.

Illustration B3: Recurrent Budget

Budget Code (1)	Description (2)	Executed Previous Year FY X-1 (3)	Approved Current Year FY X+1 (4) '000	Executed Current Year FY X (5)
	RECURRENT REVENUE			
	Central Government Transfers and Grants for Recurrent Budget		40,000	
	Own Source Revenue for Recurrent Budget		20,000	
	Other Revenue for Recurrent Budget (Donor & NGO)		1,750	
	TOTAL FROM RECURRENT REVENUE SOURCES		61,750	
	Surplus from Previous Fiscal Year (Savings)		00	
	TOTAL RECURRENT REVENUE		61,750	
	RECURRENT EXPENDITURE			
	Administration and Finance			
	Fuel for project inspection		20,000	
	Reams of Paper for office use		10,000	
	Staff Inspection allowance		1,750	
	Workshops and Seminar costs		50,000	
	Sub-Total Recurrent Budget		61,750	

4.7.4 Capital development budget

The format for the capital budget statement is presented in table B9 below.

Table B9: Summary of the Capital Budget

Budget Code	Description	Executed Previous Year FY _____	Approved Current Year FY _____	Executed Current Year FY _____
3	CAPITAL REVENUE			
3.1	Transfers and Grants for Capital Budget			
	1. Central Government Transfers for Capital Budget			
	2. External Transfers for Capital Budget (from Donors etc.)			
	3. Other Contributions for Capital Budget (from 3.1 to 3.N)			
	Sub-Total Transfers and Grants for Capital Budget			
3.2	Own Source Revenue for Capital Budget⁶			
	1. Specific Tax(es) for Capital Budget			
	2. Other Own Revenue Source(s) for Capital Budget (from 2.1 to 2.N)			
	Sub-Total Own Source Revenue for Capital Budget			
3.3	Other Revenue for Capital Budget			
	1. Sales of Assets			
	2. Loans for Emergencies for Capital Investments			
	3. Other Capital Revenue (from 3.1 to 3.N)			
	Sub-Total Other Revenue for Capital Budget			
	TOTAL FROM CAPITAL REVENUE SOURCES			
3.4	Surplus from Previous Fiscal Year (Savings)			
	1. Surplus of Current Budget from Previous Fiscal Year			
	2. Surplus of Capital Budget from Previous Fiscal Year			
	Sub-Total Surplus from Previous Fiscal Year (Savings)			
	TOTAL CAPITAL REVENUE			
4	CAPITAL OUTLAYS (INVESTMENTS)			

⁶ Any percentage from specific taxes or other own revenue sources to finance capital expenditures.

Budget Code	Description	Executed Previous Year FY _____	Approved Current Year FY _____	Executed Current Year FY _____
4.1	Investments in Services			
	1. Urban Roads and Sidewalks			
	2. Health Services (Health Centers and Clinics)			
	3. Education and Vocational Training (Schools and Training Centers)			
	4. Solid Waste Management			
	5. Public Markets			
	6. Slaughterhouses, Abattoirs, and Kennels			
	7. Water Supply/Reservoirs			
	8. Electricity and Public Lighting			
	9. District Security / Policing			
	10. Urban / Town Zoning and Planning			
	11. Agricultural Extension Services			
	12. Public Transport			
	13. Other Services (any other services to be provided by the district from 13.1 to 13.N)			
	Sub-Total Investments in Services			
4.2	Investments in General Administration			
	1. Investments in General Administration			
	Sub-Total Investments in General Administration			
4.3	Other Investments			
	1. Other Investments (from 1.1 to 1.N)			
	Sub-Total Other Investments			
	TOTAL CAPITAL OUTLAYS (INVESTMENTS)			
	<i>Surplus or Deficit in Capital Budget</i>			

The capital development budget in a tabular format (shown below in illustration B4) to indicate the following details: (1) account code, from COA; (2) account description/name; (3) the actual amount spent in previous, derived from previous year's financial statements; and (4) the approved capital budget for the current financial year, derived from the completed capital budget estimation form (presented in table B5, above).

Illustration B4: Capital Development Budget

Budget Code (1)	Description (2)	Executed Previous Year FY X-1 (3)	Approved Current Year FY X+1 '000 (4)	Executed Current Year FY X (5)
CAPITAL REVENUE				
	CG Transfers and Grants for Capital Budget		1,100,000	
	Own Source Revenue for Capital Budget		100,000	
	Other Revenue for Capital Budget (Donors and NGO)		200,000	
	TOTAL FROM CAPITAL REVENUE SOURCES		1,400,000	
	Surplus from Previous Fiscal Year (Savings)		00	
	TOTAL CAPITAL REVENUE		1,400,000	
INVESTMENTS IN SERVICES				
Water Supply/ Reservoirs				
	Constructing 94 boreholes		2,500,000	
Urban Roads and Sidewalks				
	Opening 250 kms of roads		4,500,000	
Health Services				
	Building 8 Health Centres		7,000,000	
	TOTAL INVESTMENTS IN SERVICES		14,000,000	

4.8 Annual work plans

A work plan is statement that expresses the activities the District intends to perform over the coming year, the resources each activity is expected to consume (inputs/costs) as well as the output expected/planned from each activity.

Annual work plans may be prepared annexed to the budget document.

Annual work plans can be prepared for recurrent⁷ expenditure activities as demonstrated in the example, illustration B5, below.

⁷ For Capital development work plan refer to Annex 4 AWPBP format, of the District Public Expenditure Management (PEM), Budgeting and Investment Programming module, 2012.

Illustration B5: Recurrent Expenditure Annual Work Plan

Department	Objective/ Expenditure Item	Responsi bility	Implementa tion period	Activity Outputs /Unit Costs			
				Description/ Output	Planned output (Units)	Unit Cost Pl. Shs	Budget Pl. Shs
Administrati on and Finance	Fuel			Fuel (litres)to travel to inspect projects	2,000	10,000	20,000,000
	Stationery			Reams of papers for office use	500	20,000	10,000,000
	Allowance			Project inspection days	70	25,000	1,750,000
	Workshops and seminars			Financial management staff workshop and seminars	10	5,000,000	50,000,000
Total for Administration and Finance							61,750,000

The recurrent expenditure work plan is particularly useful when it comes to budget implementation and later on providing accountability after implementation stage.

4.9 Final stage of budget process

The final stage of the budget preparation process is the finalisation of the work plan and budget estimates and the presentation to and approval by the Council.

The chairperson of Council or his/her representative will present the budget and annual work plan to District Council. The budget meeting gives Councilors the opportunity to debate the budget proposals and the activities in the annual work plan. Once approved the budget becomes a legally binding document and should be submitted to Ministry of Interior and thereafter communicated to the public.

4.10 Budget revision

During budget implementation the approved District budget can be revised⁸ through virement, reallocation and supplementary (provisions) estimates.

4.10.1 Virement

During budget implementation it may be necessary transfer (virement) funds from one item to another item under the same vote (department) of either recurrent or development budget. The following steps should be observed:

⁸ Revision of approved budget estimates is provided for by Law 7 of 2003, Article 33 section 12.7.

- Step1: The HoD (vote controller) identifies a need to transfer funds from one item to another item under his department;
- Step 2: The HoD applies for transfer of funds (virement) authorisation from the Secretary for Local Government giving reasons, showing the amount(s) to be transferred and the affected items;
- Step 3: The Secretary for Local Government authorises the transfer (virement);
- Step 4: The HoD records (by the accounts staff) the changes of the affected items in the vote book, carries out the necessary payments; and
- Step 5: At the end of the month the head of department shall produce a report the approved virement if any in budget performance report (per table B9).

Virement shall, however, not be used to:

- (i) Transfer funds of employee remunerations costs to other items;
- (ii) Implement a new policy;
- (iii) Transfer funds from development to recurrent budget item; and
- (iv) Transfer funds from conditional to non-conditional Central Government transfer items.

4.10.2 Reallocation

It may be necessary during budget implementation to transfer funds (reallocation) funds from one vote (department) to another vote (department). The following steps shall be observed:

- Step1: The HoD identifies the funds to be transferred from another department and provide reasons;
- Step 2: The HoD applies for authorisation of reallocation from the Executive Committee indicating the items and departments (votes) to be affected;
- Step 3: The Executive committee authorises reallocation;
- Step 4: The HoD records (by the accounts staff) the changes of the affected items in the vote book, carries out the necessary payments; and
- Step 5: At the end of the month the head of department shall produce a report the approved reallocation if any in budget performance report (table B9).

Reallocation shall, however, not be used to:

- (i) Transfer funds of employee remunerations costs to other items;
- (ii) Implement a new policy;
- (iii) Transfer funds from development to recurrent budget item; and
- (iv) Transfer funds from conditional to none conditional Central Government transfer items.

4.10.3 Supplementary provisions (estimates)

If a District receives more funds than was budgeted for, from either Central Government or from its OSR, to be able to utilise the funds, the Secretary for Local Government shall produce supplementary

provisions for the District Council’s approval. On the approval of the supplementary estimates the Secretary for Local Government shall cause the revision of the original approved budget accordingly.

4.10.4 Supplementary provisions/reallocation warrant

In case of supplementary provision or reallocation the Secretary for Local Government shall issue a warrant as presented in table B10, below to the HoDs (vote controllers) concerned. The supplementary provisions /reallocation warrant to show details of funds.

Table B10: Supplementary Estimates/Reallocation Warrant*

Warrant No.....of Financial Year					
Executive/ Council Approval Minute No.....					
Department /Section	Original Approval Estimate	Approved Supplementary Provision of Reallocation	Revised Estimates	Reallocation from:	
				Department /section Item	Amount

Signed:..... Secretary for Local Government.....

Date.....

Original - Head of Department

Duplicate – Auditor General

Triplicate – Head of Internal Audit

Quadruplicate – DAF

* Delete as necessary

4.11 Cash flow budget/management

Cash is an important scarce District asset and therefore requires good management. Cash flow management refers to systems, procedures and management decisions by which managers ensure that:

- (i) The District has the sufficient cash to meet all approved expenditures;
- (ii) A payment system according to the plan (cash budget); and
- (iii) Serious decline in cash balances is avoided.

4.11.1 District's cash management steps

The cash flow budget consists of cash flow projections for: (1) recurrent items; and (2) development items month by month (and quarter by quarter) throughout the financial year. The Local Government cash flow budget should reflect a positive cash balance for each month of the year. The desired cash balance should be adequate to handle unexpected items should they occur. The total amounts per cash budget should be consistent with the annual budget.

District management should observe the following cash management steps;

Step 1: The DAF should produce the District quarterly cashflow budget (as in Table B11, below)

Table B11: Quarterly Cash flow Budget

Liquidity Group	BUDGET for the quarter (from approved budget) Pl. Sh	Quarter (Monthly available cash allocations)			
		1 st Month Pl. Sh	2 nd Month Pl. Sh	3 rd Month Pl. Sh	Total Pl. Sh
CASH INFLOWS					
Districts Own Source Revenue					
Sales of goods and services					
Monthly Grants Releases (RTS)					
Quarterly Grant Releases (DTS)					
Donor Funds					
Interest received					
Sale of assets					
Other receipts					
TOTAL Inflows					
CASH OUTFLOWS					
Recurrent Payments					
Employee cost					
Suppliers					
Interest paid					
Pensions					
Other payments					
Total Recurrent Outflows					
Development Payments					

Liquidity Group	BUDGET for the quarter (from approved budget) Pl. Sh	Quarter (Monthly available cash allocations)			
		1 st Month Pl. Sh	2 nd Month Pl. Sh	3 rd Month Pl. Sh	Total Pl. Sh
Purchase of land & other capital assets					
Contracts					
Other					
Total Development Outflows					
Total Outflows					
Net CASHFLOWS					
Net increase/ decrease)					
Cash at beginning of period					
Cash at end of period					

- Step 2: The DAF should analyse the cash flow pattern. Examine all revenue and expenditure items and determine their timing (when expected). For some items, for example, Central Government transfers and wages, it is easy to determine their timing while for other items such as charges and fees, the DAF may just divide the total expected cash by twelve. The analysis should be carried out based on input from HoDs. Each department should produce and present departmental cash outflow analysis. The DAF will then match the expected inflows with the desired outflows of the HoDs by months and quarters.
- Step 3: It is very important that at this stage cash inflows and outflows are synchronized in order to permit inflows to coincide with outflows; therefore the DAF may suggest some re-arrangement in the proposed timing for this to happen. When this is done the HoDs will have to adjust the timing of activities in their work plans.
- Step 4: The analysis should lead to the **formulation** of an annual **cash flow budget**. The cash flow budget forms the basis for the actual management of cash flow during the Financial Year. The cash flow budget should be drawn up immediately the annual budget has been passed.
- Step 5: Routine cash flow management activities. These mainly include collecting all the proposed revenues and making payments according to the proposed timing in the cash budget.
- Step 6: Updating the quarterly and monthly cash flow projections in light of emerging situations. This also involves setting quarterly commitment limits and the preparation of monthly and quarterly disbursement schedules.

4.11.2 Cash flow implementation

The cash flow budget will be implemented successfully if management has put in place procedures for:

- a) Collecting all projected income as promptly as possible;
- b) Monitoring revenue arrears and taking action to recover outstanding amounts;
- c) Managing payments within the projected amounts, work plan and an agreed policy on payment periods;
- d) Avoiding over-commitments; and
- e) Reviewing monthly cash flow budgets in light of new information.

4.11.3 Over-commitments

Avoiding over-commitments is very important and is achieved through a Commitment Control System (CCS) which ensures that commitments are not made in excess of cash inflows projected for the period (quarter or month). The DAF should create commitment limits for local revenue financed activities.

In cases where cash flow balances are inadvertently run down due to unforeseen reasons, management should consider:

- a) Reviewing non-essential services funding;
- b) Suspending recruitment;
- c) Suspending non urgent purchases;
- d) Freezing on construction projects; and
- e) Review of the budget (to remove or postpone some items).

4.12 Monitoring of budget

After the budget has been approved it is the responsibility of the Secretary for Local Government, head of departments/sections/units to ensure that District services are delivered within the limits provided in the budget. They should closely monitor the progress of actual revenue and expenditures through the financial year and identify any item variance that might cause the District to end the year with a significant surplus or deficit.

4.12.1 Budget performance report

Each head of department/section/unit should produce a monthly budget performance report for the attention of the Secretary for Local Government.

The purpose of the monthly budget performance report is to facilitate the monitoring of the approved budget and revise the budget when necessary. The monthly budget report format presented on table B12 below, shows the original budget, any authorised amendments, actual transactions to date (revenue,

expenditure and commitments listed in the vote book). The differences between revised and actual transactions are shown as variances. The budget performance report to be prepared and reviewed at the end of each month by the Secretary for Local Government or his representative.

Table B12: Monthly Budget Performance Report

Item Number	Activity description	Approved original amount	Authorized/ amendment (revisions)	Revised budget (approved add or minus amendments)	Totals of the month expenditure/ commitments/ revenue (transactions)	Variances (difference between revised and actual transactions)
<i>Produced by head of department/section/unit.....signature.....date.....</i>						
<i>Reviewed by Secretary for Local Government.....signature.....date.....</i>						

5 Revenue

5.1 Legal context and definition

5.1.1 Legal context

Districts derive authority to collect revenue from Law No. 7 of 2003. Every financial year the District shall produce a revenue budget, approved by the District Council, they shall collect as provided for in the approved budget and account for it accordingly.

5.1.2 District revenue sources

Districts have the following types of revenue sources:

- (i) OSR: As provided for in Law No. 7 of 2003, Article 32 to 37, Districts income/revenue include taxes, values, daily charges, fixed asset fees, licensing, fines and interest rent;
- (ii) Central Government Transfers (CGT): Central Government transfers of conditional and unconditional funds form part of Districts income.

Conditional grants are funds given to the District to finance programmes agreed upon between the Local and the Central Government.

Unconditional grants are funds provided by the Central Government to finance the decentralised services;

- (iii) Donor and NGO funds: A District may also access donor funds, which may be unconditional or conditional depending on terms of the donor; and
- (iv) Kind donations: District may receive kind donations which shall be recorded in the revenue ledgers using the purchase price provided by the donor, the asset shall also be recorded in the asset register.

5.1.3 Rationale

The District's OSR is used for the following functions among others:

- (i) Finances administration costs especially Councilors emoluments and temporary employee costs;
- (ii) Finances counterpart funding as it may be required for a number of grants to the District;
- (iii) Finances maintenance costs of development projects thus promoting ownership and sustainability; and
- (iv) Reduces reliance on Central Government and Donor grants;
- (v) Regulates and controls the proliferation of certain businesses;
- (vi) Promotes accountability to the community resulting into improved quality of services; and

(vii) Guarantees sustainability of District's service delivery.

5.1.4 Principles

The following criteria are important considerations when deciding on revenue sources for Districts;

- (i) **Adequacy** - Identified revenue sources should be capable of yielding substantial revenues because small revenue sources are expensive in terms of expenditure on collection and effort.
- (ii) **Elasticity** - Local revenue sources should be capable of yielding additional revenues to respond to the increasing demand for services from the community over time.
- (iii) **Equity** - Equity means fairness. Taxes should be based on ability to pay by each taxpayer.
- (iv) **Administrative capacity** - The costs, effort and time involved in administering a particular revenue source should not be more than the revenues collected.
- (v) **Political acceptability** - Some revenue sources are very unpopular. In general, indirect taxes are less sensitive.
- (vi) **Economic impact** - Some taxes, charges or fees may negatively affect the propensity of taxpayers to work, save, consume or invest.
- (vii) **Engagement and understanding** – There should be mutual relationship and understanding between the tax payers and collectors.

5.2 District revenue mobilisation and collection

The following are the main activities involved in District's revenue mobilisation:

- (i) Identification and enumeration of tax payers;
- (ii) Assessment;
- (iii) Collection;
- (iv) Sensitisation and publicity; and
- (v) Enforcement.

District's revenue collection process/calendar may start in June with identification/enumeration of tax payers, followed by an assessment of tax payers, revising/updating the tax/fee registers, revenue budgeting, opening of the revenue registers/cash books for the new FY, collection of taxes/fees, recording and then enforcement. The details are presented in table R1, below.

Table R1: District revenue mobilisation and collection process/calendar

Month	Activities	Output	Responsibility
June/ July	Identification and enumeration of tax payers.	Tax payers' enumeration list.	Enumeration committee, Director of Tax and Secretary for Local Government.
August/ September	<ul style="list-style-type: none"> • Assessment of tax payers. • Drafting revenue budget. 	<ul style="list-style-type: none"> • Tax payers' assessment list. • Draft revenue budget. 	Assessment committee, Director of Tax, Secretary for Local Government and Director of Planning.
October/ November	Tax appeal committee formed and listens to complaints from tax/fee payers.	Confirmation of tax payer rates.	Tax appeal committee, Director of Tax and Secretary for Local Government.
December/ January	<ul style="list-style-type: none"> • Finalisation of revenue budget. • Approval of revenue budget. • Updating revenue registers. • Opening new FY revenue books of account. • Start of issuing of revenue demand notes/Invoices. • Kick start of revenue collection. • Sensitisation and publicity. 	<ul style="list-style-type: none"> • Approved revenue budget. • Updated revenue registers. • Issued demand notes/Invoice. • New FY revenue books of account opened. 	District Council, Director of Tax, Secretary for Local Government, DAF and Head of Planning
February, March, April, May.	<ul style="list-style-type: none"> • Revenue collection. • Revenue recording. • Revenue enforcement. 	<ul style="list-style-type: none"> • Revenue collected and banked. • Revenue books of account. 	Director of Tax, Secretary for Local Government and DAF.

5.2.1 Revenue identification and enumeration

The Secretary for Local Government through the Director of Tax department shall carry out proper enumeration and assessment of District's revenue annually.

Identification and enumeration of tax/fee payers shall be carried out annually by enumeration committee appointed by the Secretary for Local Government in writing every financial year. The number of the enumeration committee shall be determined by the Secretary for Local Government depending on the workload. The enumeration committee under the guidance of the committee chairman shall carry out field visits and record the particulars of the new tax/fee payers of various District revenue sources and produce an enumeration list.

5.2.2 Assessment of tax payers

Tax/fee assessment shall be carried out by a tax assessment committee appointed by the Secretary for Local Government amongst District officials for this purpose using the enumeration list produced after the enumeration exercise. The nature of tax/fee payable determines the basis and method of assessment by the assessment committee. The assessment committee is charged with the responsibility of making assessments for the amount to be paid by eligible persons residing in the District that appear on the enumeration list. However, as for property tax, the rates are fixed by a similar committee appointed by the Secretary for Local Government but applying different methods of assessment for the rates payable based on valuations of land and buildings. Fees, fines, charges and rents payable are determined on the basis of established rates set by the District.

Some District's taxes, fees or charges are payable every financial year and the assessment on the taxpayer's income should likewise be carried out annually. Others are payable on a daily or monthly basis and assessment is carron spot daily or monthly (examples are market dues) by the revenue collectors. However, some District's revenues may not need assessment as the rates payable are fixed, documented and well known by the stakeholders. After assessment the tax department shall issue a certificate of assessment (form R1 presented below) to the prospective taxpayer indicating among others the tax liability. The certificate of assessment should be produced before the tax collector at the time of paying the tax.

5.2.3 District revenue collection

- (i) District's revenue shall be collected by a qualified and competent officer who is in an established post, and is so authorised in writing to be revenue collector by the Secretary for Local Government, on written recommendation by the Director of Tax.
- (ii) The Tax department shall raise a demand note or an assessment form to each individual revenue payer as per District's approved rates.

- (iii) Before receiving any monies, the revenue collector shall check against records of approved rates and shall ask the payer to produce a copy of the district's demand note, or certificate of assessment so as to determine the particulars and amounts of revenue receivable.
- (iv) The demand note, or certificate of assessment, shall be pre-printed, pre-numbered, and prepared in triplicate. The copies shall be distributed as follows:
 - (a) Original served to the revenue (tax/fee) payer (assessed);
 - (b) Duplicate copy shall be sent to the collector; and
 - (c) Triplicate copy to remain in the book retained by the assessor.

The demand note/certificate of assessment shall be in format as in Form R 1 below.

Form R1: Demand note/ Certificate of assessment

XXX DISTRICT *DEMAND NOTE/CERTIFICATE OF ASSESSMENT	
Date.....	
Assessment Number.....	
Period..... From..... To.....	
Name of the assessed.....	
Address of the assessed.....	
Purpose	
Revenue Code.....	
	Amount PL.Shs
Arrears brought forward.....	
Amount Assessed.....	
Adjustments made to Account.....	
Less: Paid.....	

Balance carried forward/due..... Signature of Assessor..... Date..... Official Stamp Signature of Revenue payer..... Note: The duplicate copy should be sent to the Collector, by the Assessor. Total *Delete as appropriate	=====
---	-------

5.2.3.1 Acknowledge of receipt

The revenue collector must immediately, in the presence of the payer, count the cash and issue an acknowledgement receipt for the revenue collected. The acknowledgement receipt shall be in the form R2, presented below.

Form R2: Acknowledgement Receipt

XXX DISTRICT		Serial No.	
RECEIPT VOUCHER			
Place:		Date:	
Head	Sub Head	Amount	Amount - Pl Shs
Received from			
The sum (in words)			
Being (description of payment)			
.....			
Signature			
.....			
Title of Receiver			
Original to payer			
Duplicate Department of Finance			
Triplicate Department of Control			
Quadruplicate remain in book			

Carbon paper written or carbonated receipts, and where feasible cheque like counter foils or electronic printed receipts shall be used, so as to retain the actual, true and original data on the copies.

Where there is more than one collector, each collector shall issue a revenue collector receipt to the payer showing the following:

- (i) Date;
- (ii) Name of revenue source;
- (iii) Receipt number;
- (iv) Amount paid; and
- (v) Name of payer.

5.2.3.2 Revenue collections

The following steps shall be followed by the revenue collector to collect money:

- Step 1: Confirm the amount receivable by referring to the schedule of rates set for the various revenues sources or refer to demand notes/invoices already issued to a particular tax/fee payer;
- Step 2: Count the money received properly in the presence of the payer and confirm the amount; and
- Step 3: Prepare a receipt in duplicate using revenue Form R2- cash acknowledgement receipt and hand out the original to the payer, the duplicate copy shall remain in the receipt book.

5.2.3.3 Collection cash register/book

Every District revenue collector shall maintain a cash register/book. It is on the basis of these cash registers/books, that the main cashier shall issue one control receipt for bookkeeping purposes showing the following:

- (i) Revenue item code;
- (ii) Cashier's name;
- (iii) Total amount; and
- (iv) Period of collection.

It is this control receipt that shall be used for bookkeeping entries.

At the end of each month or more regularly the collectors' cash register/books shall be reconciled with the main cashier's cashbook to ascertain the accuracy of both records.

5.2.3.4 Receipts, tickets and licenses

Revenue collectors should observe the following while issuing receipts, tickets and licenses:

- (i) The receipts, tickets and licenses, shall be issued by revenue collectors in numerical sequence both as regards books, rolls, or set. The individual receipt books should be completed before new ones are issued;
- (ii) The receipts shall be serially numbered, and printed in triplicate;
- (iii) The receipts shall be distributed as follows:
 - (a) Original to tax/fee payer;
 - (b) Duplicate to be attached to copy of demand note and the relevant revenue registers, for processing in the accounts department; and
 - (c) The triplicate copy shall be retained in the book, for audit purposes.
- (iv) No alterations shall be made on any leaf, whether original, duplicate or triplicate of a receipt being issued. Where alterations are made, the receipt shall be cancelled and the person cancelling it shall write on the face of that receipt his/her names, designation, signature, and the word "Cancelled." All three copies of a cancelled receipt must remain in the receipt book;
- (v) All receipts must be written in indelible black or blue ink;
- (vi) The revenue collector shall balance cash collected, against the duplicate receipts or the counter foils; and
- (vii) The revenue collector shall arrange the cash according to denominations, and prepare a daily cash summary report, which in Form R3, presented below.

Form R3: Daily cash summary report

XXX DISTRICT			
DAILY CASH SUMMARY REPORT			
Date.....			
Receipt No. From..... To.....			
Denomination Pl Shs	Coins Pl Shs	Notes Pl Shs	Total Amount Pl Shs

Prepared by.....	Total Cash	
Checked by.....	Currency	
Date banked.....	Add: Value of Cheques	-----
	Total cash count	=====

At the back of the daily summary report, the revenue collector shall give full details of the cheques received, which shall include the date, cheque number, payer, payer’s bankers, amount and the receipt number.

5.2.3.5 Control of receipt books and receipts

Registers shall be maintained for printed, procured and issued receipts. The Store Keeper shall only issue receipts on presentation of the used receipt books. In case there are sub-cashiers, they shall requisition for the receipt books from the main cashier on presentation of the used receipt books. A requisition for a new receipt book shall be approved by the DAF.

5.2.3.6 Safe-keeping of cash and banking the revenue receipts

- (i) Cash shall be banked promptly and intact, on the Districts revenue account. Separate bank pay-in slips shall be used for banking cash and cheques.
- (ii) The format of the bank pay-in-slip will be similar to that designed by the District’s Bankers.
- (iii) Deposit into bank is effected by completing bank pay-in-slips in triplicate.
- (iv) Bank pay-in-slips may, however, be prepared in four copies as an additional step to strengthen the controls if considered appropriate by the District.
- (v) The original and duplicate copies to be retained by the bank;
- (vi) The triplicate to be attached to revenue registers for accounting purposes;
- (vii) The quadruplicate to be left in the bank pay-in-slip book, for audit purposes.
- (viii) The duplicate copy in case of quadruplicate copies shall be collected from the bank together with the bank statements by a person authorised and designed by the DAF. It will be used for reconciliation purposes.
- (ix) The bank pay-in slip will be distributed as follows:
 - (a) the original copy is retained by the bank;
 - (b) the duplicate is kept by the cashier/revenue collector for later handover to the Revenue Control Cashier; and
 - (c) the triplicate is left in the paying-in book, or filed by the revenue collector/Cashier.

- (x) Where the use of cheques is permitted, revenue collectors shall, when issuing receipts, indicate thereon whether payment is made in cash or by cheque and in the case of a cheque, the cheque number shall be written on the receipt and the receipt number on the back of the cheque and on the bank paying-in slip, which shall indicate the drawer's bank, and address in Puntland.
- (xi) All cheques must be crossed "Credit Account..... District" and stamped or marked on the back with the identity of the revenue collector or receiving department in or to identify any subsequent return cheques.
- (xii) An unexplained cash surplus shall be promptly receipted in the name of the revenue collector and accounted for under "Miscellaneous Income"; at no time should personal officers money be mixed with public funds and if mixed it can only be refunded after appropriate explanations have been given to the Head of Internal Audit.
- (xiii) An unexplained cash deficiency shall be made good by the revenue collector but where the cause of the loss outside the revenue collector's control, such as robbery or theft, losses procedure shall be carried out in accordance with the existing laws. For that purpose, all district administration shall insure all cash in transit and on premises and the insurance company where applicable shall be informed of any loss.
- (xiv) In every location where cash is handled a safe must be provided and money-in use and in transit be protected by the use of a lockable cash box and where extra security is required and armed escort shall be provided.
- (xv) The protection of District funds is the responsibility of the DAF and where necessary he or she shall consult the Secretary for Local Government.
- (xvi) All revenue funds of the District shall be banked promptly, before any expenditure where banking facilities exist, revenue collectors should be provided with safes, where funds can be kept before banking.
- (xvii) Documents or other articles deposited for safe custody shall be recorded in a register kept for the purpose, and a receipt issued and shall only be withdrawn on the written demand of the depositor or other authorised person, on the production of the original receipt and the return of the documents, or articles shall be acknowledged by the receiver by signing the register.

5.2.3.7 Revenue accountable stationery

- (i) The DAF shall be responsible for safe custody and purchasing of revenue accountable stationery, shall keep a register of accountable stationery for receipt and issue recording.
- (ii) Issues shall be accompanied by a delivery note in duplicate. Any officer to whom receipt books, tickets and license forms are issued shall check these immediately against the delivery note and if correct he or she shall sign the duplicate note and return it to the issuing officer while the original is filled for inspection and audit purposes.
- (iii) Officers in charge of accountable stationery are personally responsible for their safe custody.

- (iv) All receipt books, tickets and license forms, shall be safeguarded from theft or misuse, and must be securely locked up all the time and be issued in serial number order to those using them.
- (v) Receipt books, tickets and license forms shall not be transferred between departments and revenue collection points without the consent of the DAF.

5.2.4 Sensitisation and publicity

This may involve holding workshops and seminars for the revenue collectors and the taxpayers and other forms of awareness campaigns on the importance of paying taxes say, radio announcements, advertising and drama.

5.2.5 Enforcement

This involves following up tax defaulters, regular checks on licenses to ensure that all those who pay actually pay and they should pay the right amount.

5.3 Debt management and credit control

Districts get income from various sources collected differently through, cash, cheque, money orders and bank transfers. Money owed to the District represents an asset that is idle, as it denies the District the opportunity of using the money to provide services promptly. It is therefore important to minimise debtors by following up the collection of debts in a timely, systematic and vigorous manner. Any debt not collected is a serious matter and represents a loss to the District.

District may decide to engage a specialist debt collection agency or to manage using its own staff and resources. They may use the legal system to contact debtors and pursue enforcement. Collection costs incurred in this process may be recovered in full from the debtor.

5.3.1 Debt write-off

After all avenues of debt collection have been exhausted or if it is established that it would not be economically viable to pursue a debt, the Secretary for Local Government may consider to write-off the debt.

The Secretary for Local Government shall present to the District Council request of debts to be write-off, the request to contain details of the debt and reasons to justify a write-off. It is the duty of the District Council to make a decision. The writing-off, of a District debt does not constitute a satisfactory settlement of the debt. All sanctions imposed for overdue debts apply equally to debts previously written-off in the District's books of account.

5.4 Revenue records

5.4.1 Revenue collectors records

Each revenue collector shall keep the following records:

- (i) A ticket/receipt register showing:
 - (a) all tickets/receipts issued; and
 - (b) numbers of tickets/receipts of each denomination sold/issued each day;
- (ii) A cash register;
- (iii) A file or binder containing copies of all revenue assessment forms or register showing the following:
 - (a) the names of all revenue payers;
 - (b) their annual revenue assessment including permanent or temporary exemption; and
 - (c) the date on which they have paid their revenue and serial number of the ticket issued to them, or the date and number of any exemption ticket issued to them;
- (iv) A serial numbers register (copy book showing numerically the number of each ticket issued and the revenue payer's name.

5.4.2 Opening and recording of registers

Opening and recording of revenue registers by tax department, the following steps to be applied:

- Step 1: At the beginning of every financial year the persons/organisations owing money to the District from the previous financial year shall be brought into relevant revenue/income register by entering the columns for name of payer, address and amount due (brought down from the previous year).
- Step 2: Review the revenue/income registers on a regular basis and apply any penalties for failure to pay dues in time to any of the payers and immediately update the register.
- Step 3: Tax department to issue the financial year invoices/bills or assessment notes to customers or taxpayers, the revenue (debtors') register officer shall use duplicate copies of the invoices or assessment notes to enter columns for the names of the debtor, address, and invoice amount.
- Step 4: On payment by the individual customers/ tax payers, the debtors' register officer shall use copy receipts book to update the accounts receivable/debtors register by entering the columns for the total due, date received, receipt number and amount received.
- Step 5: At the end of the FY, revenue/income register officer shall complete end of the year closing entries by entering the columns for total received and written off, and the balance at the end of the FY carried to the next FY.

5.4.3 Revenue receipts

- (i) The prescribed official triplicate receipt book (presented in Form R2) shall be used in every situation except where the DAF authorises the use of some other form, or where official tickets or licenses are used.
- (ii) Receipts shall be completed in indelible pencil or blue or black ballpoint pen, and carbon paper (double-sided if available) shall be used to make the duplicates and triplicates.
- (iii) The originals shall be delivered to the payee by the receipting officer and the duplicates shall be used to support the accounting entries and the triplicates retained in the book.
- (iv) Each receipt shall be signed by the receipting officer and facsimile signature stamps must not be used but if possible carbonated receipts shall be used and where feasible cheque-like counter foiled receipts shall be used in order to retain actual and a true copy of data.
- (v) Receipts, tickets and licenses shall be issued in strict numerical sequence both as regards books, rolls or sets and the individual receipts a book, roll or set should be completed before another is used.
- (vi) Good carbon impressions should be made on all copies. No erasures may be made nor may any alteration be made to any word or figure describing the amount of the receipt the payee's name or the date. Such an error shall necessitate the cancellation of the receipt and the issue of a fresh one.
- (vii) All used receipts books shall be verified by the Head of Internal Audit who shall issue a certificate of acknowledgment of receipt of the books, to be able to get new receipt books from the DAF.
- (viii) Cancellation of receipt shall be effected by marking the word "cancelled" across all copies of the receipt which shall stay affixed or re-affixed in the receipt book and the number of each cancelled receipt shall be recorded in the cash book.

5.4.4 Revenue register

- (i) The duplicate (triplicate in case of four copies) copy of the bank pay-in-slips shall be attached to duplicate copies of the demand note(s), receipts, original of the daily cash summaries and classified in the revenue registers by the revenue collector or any other person authorised by him/her.
- (ii) Each source of revenue shall be maintained in a separate revenue register.
- (iii) The revenue register shall be produced as in form R4, presented below.
- (iv) The revenue register(s) shall be recorded in duplicate.
- (v) Both copies shall be signed by the revenue collector.
- (vi) The original shall be submitted to the accounts office together with copies of support documentation for processing.
- (vii) The duplicate shall remain in the book for audit purposes.

Note: All arrears carried forward at the end of each accounting period must be duly brought forward at the beginning of the next period.

Form R4: Revenue register

**XXX DISTRICT
REVENUE REGISTER**

Department/Section..... Date..... Folio.....
 Description of Revenue..... Account Code.....

Arrears b/f Pl Shs	Revenue Due					Revenue Received					Amount paid out/banked		Arrears Carried forward	Remarks: File Numbers, Cross Reference etc.	
	Date due	Details	Payers	Amount for F/Y	Total due to date	Date	Receipt Numbers	Arrears	Current	Total amount received					
					Pl Shs			Pl Shs	Pl Shs	Pl Shs					
Total															

Names:

Signature.....

Date.....

5.5 Revenue accountability

5.5.1 The responsibility of DAF

The DAF is responsible for accounting for Districts revenue, will give instructions as to the frequency (at least once a month) and method by which revenue collectors will pay in revenue collected to main cashier and bring their cash and counterfoils for accountability.

The DAF shall prepare and submit a monthly revenue accountabilities to the Executive committee. This accountability shall contain all sources of local revenue collected and expenditure of the funds received.

5.5.2 Checking of revenue accounts

The DAF, shall arrange for the revenue cash accounts to be examined carefully and when he/she is satisfied that all collections have been brought to account, he/she shall arrange for the revenue collector's cash book to be endorsed with the receipt or licenses issued from each counterfoil book which shall also be initialed and dated. In the case of fixed fee ticket a similar entry shall be made against the last entry in the ticket register. To ensure that revenue collectors account for all receipts, their ticket registers and cash books shall be examined at the same time whenever a fresh supply of receipt, ticket or other counterfoils is issued.

5.5.3 Arrears of revenue

One month from the end of each financial year, each revenue collector must prepare a draft list from each revenue register of revenue due but not collected. Items should be struck off the list during the last month of the financial year as they are collected.

At the end of the financial year a final list of arrears should be typed, totaled, certified by the DAF and submitted to Executive committee not later than one month after the end of the financial year.

5.5.4 Grants from Central Government

The DAF shall produce acknowledgement receipts of Central Government grants and submitted to the Central Government/donors/NGO confirming the receipt of funds, within one month of receipts of the funds.

5.6 District borrowing

A situation may arise which may require Districts to borrow⁹ funds, like an emergency, natural disaster or security issue.

⁹ Refer to Article 91: of Law No.23/2002, amended 2007.

- (i) Districts should only borrow funds from recognised institutions/organisations, registered and regulated by the Puntland Central Bank.
- (ii) The District Secretary for Local Government should obtain written authorisation to borrow funds from the Executive committee if it does not exceed 10% of total annual Own Source Revenue, if it exceeds 10% but less than 20% of OSR the District Council's authorisation shall be required. The amount of borrowed funds in a financial year should not exceed 20% of Districts total OSR.
- (iii) Borrowed funds should be repaid preferably within the next financial year, if not should not exceed four years.
- (iv) Loan repayment schedule should be approved by the District Council.
- (v) The borrowed funds shall be managed in accordance with the existing district financial laws and procedures, the Council shall pass supplementary budget/expenditure for the borrowed funds.

5.7 District investments

A District may have properties for the purpose of earning rent or capital appreciation aimed to increase OSR. In some cases the properties may partly be used for administrative service purposes. The classification of an asset as investment property is dependent on the purpose of construction or purchase and whether the assets is expected to generate cash flows from rent and or from capital appreciation. Investment property is expected to generate cash flows, largely independently of the other assets held by the District.

The objective of District investment policy is to provide criteria for District investments and management of District investment funds. District investment policy should always be consistent with the District's objectives and with the long term District development plans:

- (i) District should approve the creation of an investment fund, specifying the fund amount and preferred investment options and where to bank the funds;
- (ii) The District investment funds are to be principally held in property and bonds, however, money may be available from time to time for internal borrowing or be deposited in a bank account while awaiting re-investment. All invested property is to be wholly owned by the District and be capable of sustaining returns to District. District investments should aim at maximising return on capital investment, income from the invested fund is used to provide District services;
- (iii) For each investment option/project the Council should approve specific policies related to invested fund Management;
- (iv) All profit, rental income and interest earned on any invested fund or funds deposited in a bank account or invested in internal borrowing will be recorded as District income, and used to contribute District's service delivery;
- (v) Property investment (purchase or sale) or bonds decisions should be made taking into account the following factors:

- (a) Need to provide a financial return consistent with market value returns;
 - (b) The financial worthiness of investment;
 - (c) The potential to provide future value growth; and
 - (d) Investment within District boundaries.
- (vi) The Secretary for Local Government shall be in control of all District's investments, to ensure the safety of principal, while managing liquidity requirements of debt service and other District financial obligations, providing the highest investment return using authorized investment instruments, and promoting council economic development and service delivery.

5.7.1 Recognition and de-recognition of investment property

District investment property shall be measured and recorded in accounts initially at its cost and subsequently at either cost or revalued amount or if constructed at the cost of construction when it is complete.

Investment property shall be removed from account books/records on disposal or when it is permanently withdrawn from use and no future economic benefits or service potential are expected from it or donated. Any gains or losses arising from the retirement or disposal of investment property shall be recognised in financial statements of the District.

6 Expenditure

6.1 Legal context

Articles 38 to 42 of Law No. 7 of 2003 bestows power to incur expenses on the Mayor and the Secretary for Local Government. The Secretary for Local Government is responsible for ensuring that the expenses are in line with the law, budget and the income of the District.

After the approval of budget estimates, Districts have the authority to make payments and implement the approved budget. Finance department is responsible for making the initial budget implementation activities of opening of vote books, cash books, abstracts, ledgers and registers, bank accounts, for the new financial year before making payments.

The Secretary for Local Government shall appoint vote controllers every financial year, after the approval of budget estimates and issue them with Departmental warrants. Departmental warrants will indicate amount authorised to expend during the year. The Departmental warrant should be produced as shown in Form E1 below.

Form E1: Departmental warrant

<p>XXXXXX DISTRICT DEPARTMENTAL WARRANT</p>			
<p>WARRANT NO _____</p>			
<p>Issuing Officer.....</p> <p>Title.....</p> <p>Signature.....</p> <p>Date.....</p>	<p>Authorised Officer.....</p> <p>Title.....</p> <p>Signature.....</p> <p>Programme Code.....</p> <p>Sub-Programme Code.....</p>		
<p>You are hereby authorised to expend during the year 20..... the amounts specified below as they become due.</p> <p>The authority shown against each item should be quoted on all vouchers as the authority for the expenditure, and a reference should be given to the number of this warrant and the Department by which it is issued.</p>			
Item Code	Particulars	Authority	Amount

			(Pl Shs)

Distribution:
Original to addressee
Duplicate retained by Issuing Department

6.1.1 Expenditure principles

- (i) All local district recurrent and capital development expenditure transactions are processed through the Commitment Control System (CCS).
- (ii) No contract agreement, Local Purchase Order (LPO) or other commitments should be issued unless a proper commitment requisition (Form E3) presented below, has been approved. Each commitment requisition should possess a reference number.
- (iii) All commitments must be entered into the vote book (Form E6) as soon as they occur and should be consistent with the approved annual budget and relate to activities in the annual workplan.
- (iv) Commitments should not be approved unless there is sufficient balance available under the commitment limit, for the relevant budget item.
- (v) No payment should be made unless it is based on a previously approved commitment.
- (vi) The DAF should produce a monthly/quarterly report on outstanding commitments unpaid and overdue bills by 15th day of the following month.
- (vii) The DAF shall maintain a contract/commitment register as shown in Form E5. Secretaries for Local Government will be personally responsible for any over-commitment of the District, and should monitor commitments together with vote controllers.
- (viii) When District staff process a payment, it should be approved only if the associated commitment has been approved as well. This means that when a District receives a bill it will be able to pay it promptly.

6.2 Commitments

A commitment occurs when a District enters into a legal obligation (signs a contract with a service/goods/works provider and or issues a local purchase order) that requires it to pay for goods or services either immediately or sometime in future.

A District enters into financial commitments whenever it enters into an agreement which involves future financial payments. It is very important that Districts make commitments within their approved budget estimate limits.

Commitments are budgetary and accounting actions taken to authorise and reserve funds for future obligations in the current fiscal year. Commitments are incurred only for those proposed contracts to be entered into or orders to be placed for goods or services, which shall be executed with a bona fide intent that the contractor, or other performing activity, commence work and perform the contract without unnecessary delay.

Districts must observe the established process for making commitments and payments.

6.2.1 Managing commitments

The following are the steps of managing commitments:

Step 1: The HoD should ensure that all commitments are consistent with the approved annual budget and annual work plan.

Step 2: The HoD should make a commitment requisition to the Secretary for Local Government for authorisation. The monthly commitment requisition should be produced as shown in form E3 below.

Form E3: Commitment requisition

Department				
Section.....				
Requisition No. /Month				
A: REQUEST FOR COMMITMENT				
<hr/>				
To be completed by User Department				
Stores or Services Required				
Item No.	Quantity	Unit	Details of Goods and Services	Estimated Cost (P1 Shs)
Total				
Amount in				
Words.....				
Special Instructions				
.....				

Expenditure Details:

Department.....Division/Section.....
Budget Item..... Sub-item.....
Description of Activity.....Workplan Ref. No.....

Funds Position:

Balance per Commitment Limit or Cash Release	<i>Amount Committed</i>	<i>Balance after Commitment</i>

Requisition prepared by: Position.....

Date.....

Authorised by: (Vote Controller) Position: Date:

Step 3: The Secretary for Local Government approves the commitment requisition as shown in Form E4 below.

Form E4: Approval of Commitment

B: APPROVAL OF COMMITMENT

Activity in Workplan (yes/no)Funds available as per Vote Book

Commitment Amount of approved and authorised in Vote Book (yes/no)

If commitment rejected, give reasons

Director of Administration and Finance (DAF)Date:

Secretary for Local Government..... Date:

Payment Voucher No. and Amount

Cheque No. and date

Step 4: The Supplies Officer prepares either an LPO or a draft contract for review by the DAF and approval by the Secretary for Local Government.

Step 5: Once the LPO or contract is approved by the Secretary for Local Government, the DAF enters the details into the commitments register as shown in Form E5 below. This register should be updated once invoices are received from the supplier and when payments have been made.

Form E5: Contracts/ Commitments Register

Register Number	Date	Contractor/ Supplier	Commitment Requisition Form No.	Amount Committed (PI Shs)	Bills			Amount Paid		Amount Due
					Date	Amount (PI Shs)	Overdue (Yes/No)	Date	PI Shs	PI Shs
Total										

6.3 Vote book

At the beginning of each financial year, the department’s approved budget provisions shall be entered in the vote book, using a separate sheet for each item by designated finance officers. During the year the approved estimates may be amended by authorised virements, reallocations and supplementary provisions.

A vote book should be produced as shown in Form E6 below.

Form E6: Vote Book

District..... Department..... Sub-Head..... Section..... Expenditure item.....					Warrants							
					No		Date		Amount			
							Issued	Received				

(1) Date	(2) Reference		(3) Payee/ Details	(4) Commitment Limit (Cumulative)	(5) Cash Release (Cumulative)	(6) Commitments	(7) Balance on Commitment Limit (4 - 6)	(8) Commitment Balance on Cash Release (5 - 6)	(9) Payments	(10) Cash Balance (5-9)	(11) Unpaid Commitments (6-9)	(12) Vote Controller		(12) Remarks
	Voucher	Workplan										Initials & Date		

Note: The entries for commitments shall be derived from the approved commitment requisition form.

At least one of (7) or (8) must remain positive at all times

6.3.1 Recording commitments

Commitments are budgetary and accounting actions taken to authorise and reserve funds for future obligations in the current fiscal year. Commitments are incurred only for those proposed contracts to be entered into or orders to be placed for goods or services, which shall be executed with a bona fide intent that the contractor, or other performing activity, commence work and perform the contract without unnecessary delay.

Commitments entered into are incurred by the raising of LPOs, entering into contracts, or as the result of anticipated imprest retirements, the "commitments" column of the vote book should be entered. This acts as a safeguard to avoid overspending. Payments and further commitments must be avoided if existing liabilities have taken up the entire vote.

As cheques, payment vouchers and imprest cash payment vouchers are raised, the "payments" column of the vote book should be entered, and the balance column entered with the correct balance, having adjusted for liabilities discharged.

Each vote controller shall ensure that the vote book is promptly posted.

6.3.2 Reconciliation of vote book

The DAF will provide monthly extracts from the main ledger to each vote controller who shall then compare and reconcile the details with the vote book. Having made any necessary adjustments and corrections, the vote controller must certify to the DAF that the vote book agrees with the main ledger. Such reconciliations and certifications must be completed within thirty (30) days of the receipt of the monthly ledger extracts from the DAF.

It is the duty of each vote controller to liaise with the Secretary for Local Government and the DAF to initiate necessary virements, reallocations and supplementary provisions as a result of overspending and under-provisions discovered in the reconciliation process.

6.4 Procurement of goods, services or works

The District's procurement plan shall be approved by the District Council at the time of approval of the budget of the District. The committee of the District Council responsible for procurement shall on request of user department authorise procurement, provided that such procurement is within the budget of that District.

6.4.1 Initiation of purchases

When there is need for goods or services in a department, the user department shall raise a written request to the Secretary for Local Government. The requisition shall be produced as in Form E7 shown below.

The request shall be accompanied by the vote controller's vote book to ensure that on approval postings are made therein immediately.

On satisfaction of availability of funds and the need for goods/services the DAF may recommend the request or modify it accordingly, for approval by the Secretary for Local Government.

The approved requisition shall be returned to the vote controller to raise an LPO.

Form E7: Requisition form for goods and services

XXX DISTRICT						
REQUISITION FORM						
REF:			Date:			
From:			Department:			
To: Secretary for Local Government						
Requisition for Goods and Services						
Subject/RE:						
This is to request for authority to obtain or purchase the following						
Item	Particulars	Vote/ Item	Unit	Quantity	Rate (Pl Shs)	Amount (Pl Shs)
Total						
Requisitioning Officer: Names..... Signature.....		Recommended/Not recommended Signature..... Title..... (DAF)			Approved/Not Approved Signature..... Title (Secretary for Local Government) Date.....	
<p>(1) The requisition shall be written in duplicate.</p> <p>(2) The original is sent to the Authorising Officer; and</p> <p>(3) The duplicate is retained in the book.</p>						

6.4.2 Local purchase order

All goods and services procured in Puntland must be ordered by means of an LPO, prepared in quadruplicate and signed by the HoD or vote controller. The original shall be sent to the supplier, the duplicate sent to finance department and the triplicate sent to the stores. The quadruplicate shall remain in the book being used by the vote controller to update and record the vote book for the commitment. The LPO shall be produced as in Form E8 shown below.

All LPOs shall be signed by the HoD as vote controller to show confirmation for request and availability of funds.

All LPOs shall be counter signed by the Secretary for Local Government and the DAF.

Before dispatch to the supplier, each LPO shall be entered in the department vote book as a commitment.

Form E8: Local purchase order

XXX DISTRICT						
LOCAL PURCHASE ORDER						
Serial No.:						
Date:						
Requisition Ref.:						
To: XXXX (Supplier)						
Address						
Please supply the following items						
Item	Particulars	Vote/ Item	Unit	Quantity	Rate (Pl Shs)	Amount (Pl Shs)
Total						
Vote Controller: Names..... Signature.....		Verified by Signature..... Title..... (DAF) Department stamp			Approved by Signature..... Title (Secretary for Local Government) Date..... Stamp	
1 st Copy (Original) to supplier						
2 nd Copy (Duplicate) to finance						
3 rd Copy (Triplicate) to stores						
4 th Copy (Quadruplicate) remain in book						

6.4.3 Service contracts

Specialised service contracts shall be drafted by the Legal officer or Supplies officer or technical expert of the District as the case may be or adopt the format referred to in the District's procurement guidelines. The contracts shall include the following:

- (1) Names, signatures, and titles of the requisitioning vote controllers;
- (2) Approval by the Secretary for Local Government and verification by the DAF;
- (3) Names, signature and address of supplier of services; and
- (4) Reference to tendering committee authority should be shown.

6.4.4 Receipt of goods and services

6.4.4.1 Receipt of goods

When the supplier delivers goods to the District stores or to any other location as may be directed by the District, the goods shall be accompanied by the delivery note prepared in duplicate by the supplier specifying the quantities, quality, units and other details about the goods being supplied. On receipt of the goods the Store Keeper shall count them and check their conformity with the LPO, and then raise a goods receiving form for acknowledgement. The goods receiving form shall be produced as shown in form F3 above.

The goods receiving form shall be filled in triplicate.

- (i) The original copy shall be sent to the finance department, together with the triplicate copy of the LPO, and the original of the delivery note to enable the DAF to process the payment.
- (ii) The duplicate copy shall be sent to the vote controller (as notification for goods received).
- (iii) The triplicate copy shall be retained in the book.

6.4.4.2 Contract agreements

In case of payment for a full or partial contract for services, a certificate in the format below shall be completed by a technical expert of the District indicating the level of work completed so as to confirm whether payment to the contractor should be made, withheld, or amended according to the quality and defects of the work so far executed.

The technical expert's certificate as presented in Form E9 below shall be the final evidence for payment.

Form E9: Final/ Interim certificate

XXX DISTRICT FINAL/INTERIM CERTIFICATE NO.....	
Date.....	
Contract No..... Procurement Committee Sanction/Ref.....	
Project.....	
Contractor.....	
Address.....	
Commencement Date..... Completion Date.....	
Contract Value PI Shs Maximum Retention PI Shs	
<p>(A) VALUE OF WORK EXECUTED TO DATE</p> <p>(i) By main contractor.....</p> <p>(ii) By nominated sub-contractor.....</p> <p>(iii) Materials on site.....</p> <p>(iv) Direct labour/works.....</p> <p>(v) Others (Specify).....</p> <p>Gross Total</p> <p>(B) DEDUCT:</p> <p>(i) Retention fee (%).....</p> <p>(ii) Damages.....</p> <p>(iii) Value of Stores Issued by District.....</p> <p>(iv) Value of Direct Labour by District.....</p> <p>Total Deductions</p> <p>(C) DETAILS OF PREVIOUS PAYMENTS</p> <p>Cert. No. PI Shs</p> <p>1.</p> <p>2.</p> <p>Total Previous Payments</p> <p>(D) AMOUNT NOW DUE TO CONTRACTORS</p>	<p>PI Shs</p>
Certifying Officer..... Title.....	Recommended by..... Technical Officer..... Date..... Head of Works Department..... Date..... Approved by ES

Note: A – (B + C) = D.

6.5 Payments

6.5.1 Supplier's invoice or contractor's certificate payment procedures

On receipt of the supplier's invoice or contractor's certificate together with the duplicate LPO/contract from the accounts department, various officers will check the documents to confirm actions taken at different stages of initiation, acquisition of goods, and/or services pertaining to the said invoice. A payment voucher shall be prepared as shown below.

Form E10: Payment voucher form

XXX DISTRICT			
PAYMENT VOUCHER			
			Voucher number.....
Head	Subhead	Amount	
Cheque No	Date		
Payee:			
Description	Rate	Amount	Received
Financial Authority: Budget of the local government for the year.....			
Special Authority (if applicable) contract letter.....			
I certify that (a) the above amount is correct and was incurred under the authority quoted; (b) the service has been duly performed; (c) rates charged are according to the contract, fair and reasonable; (d) the amount(s) has/have been entered in the vote book (Folio No.....) and (d) does not result to an overspending on the budget.			
_____	_____		
Accountant	Director of Administration and Finance		

Secretary for Local Government			
.....		
Signature of payee		Signature of paying Officer (Cashier)	
Original: Accounts			
Duplicate: Payee			
Triplicate: Remains in book.			

- On payment for goods the following documents shall be verified, matched with each other and attached to the payment voucher:
 - (i) Duplicate copy of requisition for goods from the user department;
 - (ii) Duplicate copy of the LPO;
 - (iii) Delivery note from supplier;
 - (iv) Goods Received Note (GRN) from stores;
 - (v) Supplier's invoice; and
 - (vi) Tendering committee authority.
- On payment for services the following documents shall be verified, matched with each other and attached to the payment voucher:
 - (i) Copy of contract/agreement for the service;
 - (ii) Invoices from contractor;
 - (iii) Certificate of performance, or inspection report, approved by a Technical expert recognized by the District, and
 - (iv) Minutes of tendering committee authority.
- Payment vouchers shall be prepared in the original names of the payee. Where the payment voucher covers more than one payee, such as group of employees, the voucher shall be prepared in the names of the vote controller, indicating a certified list of payees with amounts due to each one attached.
- All paid vouchers and attached documents, supporting accountability shall be stamped "Paid".

6.5.2 Examination of vouchers

Before any voucher is passed for payment, the DAF shall ensure that the voucher and any supporting documents, invoices or musters-rolls are correct in all relevant particulars, and that each voucher has been entered in the vote book, and that sufficient provision is available in the relevant item to meet the expenditure.

If, on such examination the voucher is in order, the DAF as the case may be, shall fill in, date and certify the voucher for payment. Such certification shall be that the payment is in order and that sufficient provision is available in the relevant item in the estimates to meet expenditure.

6.5.3 Contracts payments

Before any payment is made on a works contract, the DAF shall obtain a certificate from the technical officer supervising the contract that the payment is in order and is in accordance with the contract. The format of the interim contract certificate is shown as Form E9.

Details of payment shall be entered in the contract register. On completion of the contract, details of retention money and penalties, if any, shall be entered in the contract register.

6.5.4 Payment by cheque

- (i) All payment vouchers and cheques for signing shall be accompanied by a vote book to ensure that the voucher is correctly made and paid from the correct program and sub-program. All paid vouchers and attached documents, supporting accountability shall be stamped "Paid".
- (ii) The vote book shall be adjusted for the paid transaction.
- (iii) All payments shall be by crossed cheques. Should it be necessary to open a cheque, this should be done by a "Crossing Cancelled" rubber stamp on the cheque, and fully signed by the authorised bank signatories.
- (iv) Open cheques may only be issued in respect of the following:
 - (a) To designated vote controllers for encashment and payment of salaries, wages, allowances and contributions of personnel;
 - (b) To imprest holders for replenishment of their imprest; and
 - (c) To individual employees and Councilors in respect of their allowances, emoluments and other authorised expenses
- (v) All cheques, promissory notes or any other financial document shall be signed by the Secretary for Local Government, DAF and a HoD (where applicable).
- (vi) Below are factors to take into account while preparing the cheques:
 - (a) The title of account must be stamped on all cheques using an official stamp;
 - (b) The names of the payee shall be written starting immediately after the word "Pay";
 - (c) Avoid leaving any blank spaces between the amount in words, or in figures, which could easily be manipulated;
 - (d) The cheque stubs shall be completed with the same particulars as the main cheque, and must be referenced to the relevant payment documents; and
 - (e) All signed payment instructions shall be entered into a payment register. The paid cheques register shall be completed as illustrated below in form E11. Each payment bank account maintained by the District shall have a separate payment register.

Form E11: Payments register

XXX DISTRICT PAYMENT REGISTER								
Bank.....								
Account.....								
Date	Voucher No.	Names/ Payee	Address	Cheque No.	Amount (PI Shs)	Issued by	Collected by	Signature of Payee and Date

6.5.5 Payment by cash

When the Secretary for Local Government deems it necessary, she/he may permit a vote controller to operate a cash payment system. If cash requirements are of a regular nature, it is advisable for the vote controller to operate an imprest cash system. In this case the Secretary for Local Government in conjunction with the vote controller will determine the maximum cash limit that should not be exceeded at any one time. Imprest warrant shall be produced as in Form E12 below.

Form E12: Imprest warrant

**XXX DISTRICT
IMPREST WARRANT NO...**

To be submitted to the appropriate Vote Controller

Department/Station..... Signature of the Officer
 Submitting the warrant.....

Date.....

SCHEDULE			
Name and designation of person to whom the amount is to be issued	Purpose for which issued	Amount (Pl Shs)	Dates for accounting and Repayment
	Total		

THIS WARRANT EXPIRES ON.....

To:.....
 Station:

You are hereby authorised to issue the amount (s) shown to the person described above, to be accounted to.....

In the manner and at the date(s) specified above.
 Date

DAF Secretary for Local Government.....

Original - To person to whom amount is to be issued
 Duplicate - To Sub-Accountant/Vote Controller on whom it is drawn
 Triplicate - To file for audit purposes

6.5.5.1 *Imprest or advances*

The District should not use cash from collections to make any payments including imprest and advances. The procedures to be followed on payment by cash is similar and related to that of payments by cheque:

- (i) The payment procedures from the main bank account to establish a petty cash float shall be the same as those outlined for other payments;
- (ii) Before payment is effected from the float, a payment voucher must be raised and authorised, by the vote controller;
- (iii) The payee must sign the petty cash voucher to acknowledge receipt;
- (iv) All relevant claims/requests documentary evidence must be attached thereto; and
- (v) All paid imprest cash vouchers and attached documents, supporting the accountability shall be stamped "Paid" to prevent the same documents from being re-used for further payments. A paid stamp with date may be used.

6.5.5.2 *Petty cash voucher*

Petty cash payment shall be made on petty cash vouchers.

6.5.5.3 *Petty/imprest cash book*

All imprest holders should maintain petty/ imprest cash book.

The petty cash book shall be posted in the following manner:

- (i) On receipt of the imprest payment, the imprest holder shall cash it at the bank and enter the proceeds into the receipts column of the analysis petty cash book. Expenditure shall be recorded on the payments side under the respective account codes; and
- (ii) The petty cash book shall be completed by the vote controller other than the main cashier and shall be filled in duplicate with a detachable original copy.

6.5.5.4 *Replenishing the imprest*

- (i) In order to replenish the imprest float, the imprest holder shall submit to the Secretary for Local Government the duly paid imprest cash vouchers together with the petty cashbook, a payment voucher summarizing all transactions and the vote codes, updated vote book, and a requisition for replenishment.
- (ii) After approval, the requisition shall be sent to the main cashier to process the replenishment cheque/payment instruction.

- (iii) The paid vouchers and the detached copy of the petty cash book shall be attached to the bank payment voucher as supporting documents that shall later be classified for posting to the general ledger through the abstract.
- (iv) The vouchers shall be cross-referenced to the general ledger.

6.5.5.5 Retirement of imprest

There are limited situations where payments may be met out of cash, such as advance payments to officers going out of station, or cash to meet day to day expenditure of a petty nature by vote controller whereby payment by cheques would not be possible.

When an imprest is retired, as at the end of the financial year, or earlier if the imprest holder is required to do so, the DAF or any other authorised officer, as the case may be, shall receive from the imprest-holder duly completed expenditure vouchers, together with the balance of cash in hand making up the original authorised figure. A receipt voucher shall be issued for the full total of the imprest accounts, which will then be cleared. The receipt voucher shall show:

- (i) the balance of cash returned;
- (ii) the reference numbers and amounts of the expenditure vouchers submitted; and
- (iii) the reference number and date of the relevant imprest warrant.

6.6 Payment of salaries and other employee costs

Employees' salaries shall be as per proposed and approved salary structure paid at end of every month or at an earlier date in case of holidays.

6.6.1 Preparation of payroll

The payroll shall be arranged according to departments. A payroll for computation of salaries and allowances shall be prepared as per illustration below.

Form E13: Payroll

**XXXX DISTRICT
EMPLOYEES PAYROLL**

Month: Year.....

No	Name	Title	Salary Scale	Basic Salary (PI Shs)	Allowance (PI Shs)	Gross Salary (PI Shs)	Income tax deduction (PI Shs)	Stamp duty (PI Shs)	Absence deductions (PI Shs)	Other deductions (PI Shs)	Net pay (PI Shs)	Staff Signature

Prepared by..... (Payroll Section)

Certified by..... (Personnel/ Human Resources Officer)

Director of Administration and Finance

Secretary for Local Government

6.6.2 Employment costs

All payments of salaries and wages shall be made monthly. Salaries of delegated staff shall be made at Districts level and will be handled in accordance with the instructions of the line ministries.

6.6.3 Preparation and payment of salaries

The preparation of the monthly payroll is currently being carried out by the payroll sub-section under the department of Administration and Finance of the District.

Staff in the Personnel/Human Resources section should however, crosscheck the payroll once it is prepared by the payroll accountant to determine its accuracy and ensure that all facts are correct. In particular, the personnel officer should ensure that staff that have left the service of the District are removed immediately from the payroll. Other issues to be checked include:

- (i) Names of employees;
- (ii) Salary grade/scales;
- (iii) Allowances; and
- (iv) Any changes duly communicated to the payroll section in writing.

Staff in the payroll sub-section must ensure that staff advances and other deductions are deducted before the payment is made.

Staff salaries should be paid to staff on a cash basis. Therefore, once the payroll has been checked, a voucher should then be prepared to cover each individual payment schedule; the totals of net pay and deductions (income tax and stamp duty) and entered on a payment voucher with the correct expenditure and codes. A certified copy of the payroll(s) will form the supporting document. The Accountant will draw cheques to cover the various payments, which will be approved by the DAF and the Secretary for Local Government.

The net pay cheque will be cashed and payments made in cash to the respective staff after signing on the payroll confirming receipt of their salaries. Payments shall be made in the presence of a witness authorised by the HoD or DAF for this purpose and if no officer can identify him or her, a recipient shall be required to produce proof of identity.

Any uncollected salaries should be banked promptly and intact.

A cheque for income tax and stamp duty will be drawn in favour of Puntland Revenue Authority and submitted with schedules of payers within the set timelines.

Recovery of advances should be processed through a journal entry which will be passed to record the recovery from the beneficiaries.

6.6.4 Salary advance

All District staff are eligible for a salary advance. The salary advance should not exceed 50% of the monthly salary and it should be recovered in full during the financial year.

6.6.5 Filing the payrolls for custody

After posting, the vouchers together with their supporting documents shall be filed according to their numbers, dates, cheque payment instruction numbers and departments and shall be cross-referenced to the cash book. When personnel records (including the payroll) have been audited, they shall be properly stored for custody for a period of at least 15 years.

7 Fixed assets

7.1 Introduction

There should be a strong system of internal controls over fixed assets management starting from acquisition, use to final disposal. The key issues to note in the management of fixed assets are presented below.

7.2 Assets acquisition

The assets purchased must be those that are required by the District. Careful identification of the necessary assets should be carried out via a capital investment appraisal exercise. Fixed assets purchased must observe the provisions of the existing procurement laws and regulations.

7.3 Assets maintenance

Fixed assets should be properly maintained, ideally through an organised system of planned preventative maintenance. This will provide for scheduled maintenance before an asset breaks down or deteriorates badly. Assets which breakdown cost much more to repair and usually have to be removed from service during repair. Therefore, reasonable maintenance budgets must be provided in each District budget every year, and maintenance activities must be diligently carried out. Maintenance registers, aligned to or part of the fixed asset register, will facilitate the process.

7.4 Assets records

The following documents are used in fixed assets management:

- a) **Log book** - especially for vehicles, tractors and so on to identify exactly what activities have been performed and at what date and time;
- b) **Fixed assets register** - These show location, title number or reference, description, cost, additions, and disposals for each item of fixed assets (refer to Appendix C), classified into different categories of fixed assets. The purpose of these registers is to keep track of all District fixed assets, and support the planning and execution of maintenance procedures.

7.5 Assets depreciation

Districts can chose to apply any of the two generally used depreciation methods, which are straight line and reducing balance methods.

(a) Straight line method

Under this method the annual charge for depreciation is ascertained by dividing the cost of the asset less the residue value by the number of years estimated to be the life of the asset. Thus an equal amount is provided each year and the following are book entries:

DR: Depreciation

CR: Accumulated depreciation

The depreciation accounts should then be written off to the revenue account just like other expense accounts. The accumulated depreciation account represents *capital discharged* (capital value written down) and should be subtracted from the value of the fixed assets to get a net value that will be included in the asset register.

(b) Reducing balance method

Under this method the total depreciation is spread over the anticipated useful life of the asset by annual instalments of diminishing amount computed by taking a fixed percentage of the book value of the asset as reduced by the previous for depreciation.

If the asset is financed by borrowing, it may be written off in parallel with the repayment of capital on the loan.

Revenue charge per year is ascertained by dividing the value of the loan by the estimated useful life of the asset.

Each District should be consistent with the method chosen to write off its fixed assets.

The depreciation of assets is classified into four classes as set out in the table A1 below, with depreciation rates¹⁰ applicable for each class.

The District's depreciable assets shall be placed into separate pools for each class of asset, and the depreciation deduction for each pool is calculated using rates shown in table A1 below.

¹⁰ These rates can be adjusted after consultation with Ministry of Finance

Table A1: Depreciation Rates of district Assets

Reducing balance depreciation rates for depreciable assets

Class	Assets included	Depreciation rate
1.	Computers and data handling equipment.	40%
2.	Automobiles, buses and minibuses with a seating capacity of less than 30 passengers, goods vehicle with a load capacity of less than 7 tonnes and construction and earth moving equipment.	35%
3.	Buses with a seating capacity of 30 or more passengers, goods vehicles designed to carry or pull loads of more than 7 tonnes, specialised trucks, tractors, trailers and trailer mounted containers and plant and machinery used in farming, manufacturing or mining operations.	30%
4.	Motor vehicles (saloon cars and pick-ups), locomotives and equipment, vessels, barges, tugs and similar water transportation equipment, aircraft, specialised public utility plant, equipment and machinery, office furniture, fixtures and equipment and any depreciable asset not included in other class.	20%

Straight-line depreciation rates for buildings

Districts can apply a depreciation rate for buildings of 5 percent, however, a different rate after consultation with Ministry of Finance, may be applied.

7.6 Redundancy, losses, disposals and write-off of assets

Assets are supposed to be disposed of after recommendations from the Board of Survey Report and using procurement procedures which are provided for under the existing laws. These assets could fetch some revenue for the Districts. Assets which are not disposed of in time will lose value. The overall intention is to maximise the value realised by the District on the disposition of an asset, in order to contribute to the cost of acquiring new assets.

7.6.1 Write-off redundant assets and stores.

When fixed assets and stores have become redundant, obsolete or unserviceable through normal wear and tear, they shall be written off in accordance with the following procedures:

- (i) The DAF shall prepare a list of the items giving description, reason for write-off, original cost and current estimated value, and send a copy to the Secretary for Local Government requesting a Board of Survey to examine the items;

- (ii) The Secretary for Local Government shall convene a Board of Survey and the Board shall examine the items and send their report to the Secretary for Local Government;
- (iii) The Secretary for Local Government shall submit the report of the Board of Survey to the Executive Committee for approval that the items should be written off; and
- (iv) After approval the items shall be entered in the Write-off Register.

7.6.2 Loss through damage

Any diminution in value of land, buildings, stores and other assets through damage or accident or abnormal wear and tear shall be regarded as a loss and the losses procedures below shall be followed:

- (i) The HoD in which a loss has occurred shall make, immediately on discovery of the loss, a report of loss, a preliminary report to both the Head of Internal Audit and the DAF and a copy shall be sent to the Secretary for Local Government;
- (ii) Action on a loss discovered by the Board of Survey shall be initiated by the DAF in consultation with the Secretary for Local Government;
- (iii) The Head of Internal Audit shall promptly carry out an assessment of the situation in respect of each preliminary loss report, and if he or she suspects that theft or fraud has occurred, he or she shall request the police to investigate; and
- (iv) No HoD shall withhold a report on any loss, either known or suspected, even if restitution has been, or is to be made.

7.6.3 Disposal of written- off assets and stores.

- (i) Redundant, obsolete or unserviceable stores and other assets which have been written off may be disposed of at approved dumping areas under the supervision of the Auditor General or Police, if they have no marketable value, and care shall be taken to protect the environment.
- (ii) Items which have a marketable value shall be sold by public auction in accordance to existing procurement laws and regulations.
- (iii) The Executive Committee may seek professional advice from approved firms of valuers in specific professions such as land valuation, to determine reserve prices after which the approval of the Contracts Committee shall be sought, giving the Board full information.

8 Accounting and recording

8.1 Legal context

Accounting is part of budget implementation, which includes recording of all monetary and or money-worth transactions pertaining to District as and when they (transactions) take place and producing financial reports to Executive committee, council and audit. The accounting system in Districts is principally a creation of the Law (Law No.7 Articles 39 and 40) and District Public Expenditure Management (PEM).

8.2 Basis of accounting

This accounting procedures manual is developed based on a cash basis of accounting, but has applicability in large part to the use of other basis of accounting. The use of cash basis of accounting reflects the procedures that the Districts are currently applying. It is anticipated that the Districts will gradually adopt double entry book-keeping.

There are four main bases of accounting applicable to Local Governments:

- (i) **Cash basis** - The cash basis measures cash flows at the time those flows actually take place;
- (ii) **Modified cash basis** - The modified cash basis allows a short period of time after the year-end for settling liabilities of the year just ended (and treats this expenditure as occurring in the year just ended);
- (iii) **Modified accruals basis** - The modified accruals is similar to the full accruals basis, but it is simpler because it does not involve the capitalisation of fixed assets (nor the provision of depreciation of fixed assets); and
- (iv) **Full accruals basis** - The full accrual basis records expenditures and revenues when they become due (i.e. in many cases before the associated cash flows take place). It records assets and liabilities and is therefore associated with the production of balance sheets. It is also associated with providing depreciation on assets with finite lives.

Since the District have not perfected cash accounting basis, it is recommended that they continue applying the same and adapt International Public Sector Accounting Standards¹¹ (IPSASs).

It is recommended in future for districts to progress to modified cash basis, modified accrual basis and eventually to full accrual basis. It should be noted that progression from one stage to another may take five or more years depending on the level of effort and resources employed.

¹¹ Refer to Appendix – A: List of International Public Sector Accounting Standards applicable to Public Sector bodies.

8.2.1 Use of technology applications for Districts accounts

Some of the District are currently using computer applications namely AIMS (Accounting and Information Management System) combined with BIMS (Billing Information Management System). At Central Government level, the piloting of Financial Management Information System (FMIS) is about to commence which will also soon be piloted in selected Districts.

8.2.2 Cash basis accounting

While applying cash basis accounting, the district's revenues will be recognised and recorded when cash is received, and expenditure is recorded when cash is paid. Consequently the revenues not received at the end of the financial year are treated as arrears of revenue in the following year.

Revenue is realized, recorded in the accounting records, and reported in the financial statements in the period when cash or equivalents have been received.

Expenditure is recognized and recorded in the accounting records and reported in the financial statements of the period in which cash or cash equivalents have been paid.

The districts accrued assets will be maintained in fixed asset registers¹² for record purposes but will neither be recorded in the accounts nor be included in the financial statements for the period. Accrued assets for previous years that are collected in cash in subsequent periods are recognized and recorded in the period when cash is collected. They are reported in the financial statements during the period in which cash or cash equivalents will have been received.

8.2.3 Accrued liabilities

Under Cash Accounting basis the unpaid expenses are recognized by listing them in memorandum registers as commitments. They are not recorded in the books of account. However, for information and planning purposes the schedules of the commitments and their values shall be noted and appended to the financial statements.

8.2.4 Fixed assets

Under the cash accounting basis, expenditure incurred in acquiring assets is written off to the revenue account of the particular financial period. However, for their day-to-day management, the assets are recorded in books of account and their details are maintained in special registers.

8.2.5 Advantages of cash accounting basis

The cash accounting basis has the following advantages:

- (i) It is simple to use;

¹² Refer to Appendix – B: Fixed asset register

- (ii) It avoids estimations like depreciation expenses or bad debt provisions which are subjective; and
- (iii) It is inexpensive to implement.

8.2.6 Limitations of cash accounting basis

- (i) It does not tell the user of the accounts what the full cost of running the district is within the financial year as some expenses are left out (not yet paid) and others incurred in earlier periods (but paid in the financial year) are included.
- (ii) There is potential for abuse of the system through deliberate manipulation of the district accounts. For example, by delaying a major payment for some few days so that the accounts appear favourable. The payment can then be made on the first day of the next (FY) period.

8.3 An account

District's Administration and Finance department to maintain books of account. An account is a record in a ledger form summarising all the transactions that have taken place to a particular event or activity or asset to which that ledger record relates. It can be specified as John's Account, Debtors' Account, Wages Account, Salaries Account, Furniture Account.

8.3.1 Purposes of District accounting

In a LG the purpose of accounting is to:

- (i) Demonstrate compliance with the law and other conditional requirements;
- (ii) Show how much revenue was raised;
- (iii) Account to the public on the use of their taxes;
- (iv) Demonstrate equity in the use of resources;
- (v) Show the financial strength of the local government (in terms of assets owned (e.g. cash) and liabilities due);
- (vi) Show the financial position of the local government;
- (vii) Demonstrate how resources were allocated to the different services;
- (viii) Be used as future reference in the budgeting process;
- (ix) Demonstrate that policy is being carried out effectively and efficiently; and
- (x) Provide information to stakeholders

8.3.2 Types of accounts

There are three types of Accounts:

- (i) **Personal accounts;** these comprise of both debtors and creditors. Debtors are people who owe the district money e.g. a person to whom the District has sold goods or extended services on credit.
- (ii) **Real or property accounts;** are those that refer to district's assets such as plants, machinery, stores, stationary, furniture and cash.
- (iii) **Nominal accounts;** are those that relate to district's incomes (or revenues) and expenditure such as fees, revenue, wages, salaries, procurement, rates, rent, electricity charges.

8.3.3 Bookkeeping

It is the systematic recording of all monetary and or money-worth transactions pertaining to the district when they (transactions) take place. "Systematic" implies that the recording follows a recognised format e.g. as prescribed in this Accounting manual or any other relevant regulations.

8.3.4 Double entry bookkeeping system

Double entry is a system of book-keeping applicable to both personal and impersonal accounts. Every transaction that results in a transfer of money or monies worth involves a two-fold aspect:

- (i) The giving of a benefit; and
- (ii) The receiving of that benefit.

It is a must to handle both aspects simultaneously as a giver's action leads to a receiver and a receiver creates a giver. The giving and receiving, in this case, take place between two accounts and in the same set of books of the district as illustrated below;

Illustration A1: Double entry

If John purchases a boarded off vehicle from the district, the vehicle account has to reflect the parting of the benefit (the actual vehicle) and John's Account has to reflect the gaining of that vehicle. Hence to have a complete record of the transaction there must be two entries to the concerned accounts. The transaction has therefore to be recorded twice, one entry being posted in the receiving account (John's) and another entry of a similar amount posted in the giving Account (vehicle). Thus, every debit entry is accompanied by a corresponding credit entry.

8.3.5 Advantages of the double entry bookkeeping system

The advantages of double entry bookkeeping systems are:

- (i) Determines proper posting of books of account;

- (ii) Through the use of folios, one entry identifies the account to which the corresponding entry was posted;
- (iii) Facilitates the balancing of books; and
- (iv) Enables production of a Trial Balance which also in turn, gives rise to the production of other financial statements like the Income and Expenditure statement as well as the Balance Sheet.

8.3.6 Financial transaction

Financial transactions are the monetary or money-worth events which are of relevance to district for which books of account are kept. They are identified, journaled and later posted to the books of account (ledgers) by the person doing book keeping (the book-keeper). The money-worth events have to be translated into monetary values (Somali Shillings) before they are journaled and posted.

8.4 Districts books of account/records

District will maintain the following books of account/records.

- (i) Journal
- (ii) Cash books
- (iii) Vote books
- (iv) Abstracts/cash analysis books
- (v) General Ledger and Subsidiary ledgers
- (vi) Registers: for example Assets, Contracts, Revenue.

8.4.1 The Journal

A journal is one of the books of primary entry. The journal keeps a record of unusual movement between accounts. It is used to record any double entries made which do not arise from other books of prime entry. It can be used to record the following:

- (i) Opening of the accounts at the beginning of the financial year;
- (ii) Closing of the accounts at the yearend;
- (iii) Supplementary provisions;
- (iv) Reallocations;
- (v) Correction of errors; and
- (vi) Transfer between accounts.

All journal vouchers should be checked, before authorisation, by the DAF or an Officer authorised by him.

8.4.1.1 Journal voucher

Whenever it is necessary to make journal entries in the accounts that does not entail the receipts or payment of cash, a journal voucher shall be prepared in a format shown in Form A1. Journal Voucher below.

- (i) The voucher shall show the reason for the adjustment.
- (ii) Journal vouchers shall be numbered serially.
- (iii) A copy of the journal voucher shall be passed to the officer controlling the votes to be debited and credited.
- (iv) The transactions shown on journal voucher (Form A1) shall be entered in the vote book and after being passed for inclusion in accounts shall be passed to the abstracts and to the subsidiary ledgers where appropriate.

Form A1: Journal voucher

XXXX DISTRICT			
JOURNAL VOUCHER			
Date	Department.....	JV Number...	
Account Code	Account Name	Debit Pl Shs	Credit Pl Shs
.....
.....
	Total		
Narration			
Checked by:		Official stamp	
Date:			
Authorised by:			

8.4.2 Usefulness of District journals

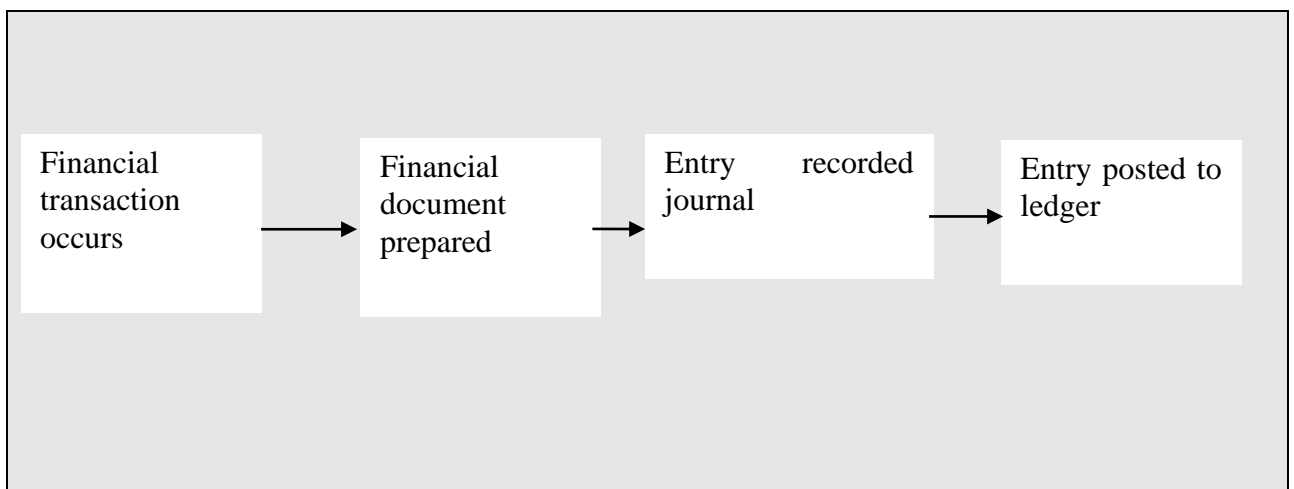
The usefulness of journal entries lies in their clear, concise and analytical portrayal of a financial transaction.

- (i) The journal gives all the information about a transaction and also provides an explanation of the transaction.
- (ii) The journal provides a chronological record of all the financial events.
- (iii) The use of the Journal prevents making of errors. Entries in the ledger can be traced back to the Journal and any omission can be detected.
- (iv) Particulars of every transaction must be recorded in the Journal before being posted to the Ledger.

RULE: No entry should be made to the ledger account except as posting from a book of original entry (Journal).

8.4.3 The flow of district's accounting information

The sequence of financial events is as follows:



8.4.4 Journalising

The process of recording a transaction in a Journal is Called Journalising. The general Journal is used for recording transactions of a general nature. Specialized transactions are recorded in special journals for example in the Cash Receipts Journal and Cash Payments Journal.

8.4.5 Journal entries

After a transaction has taken place, for purposes of recording it in the books of account, it must be journalised first. The Journalising of a transaction leads to splitting it into two entries: the debit (*Dr*)

and the credit (*Cr*). One entry is thereafter posted to one ledger account while its corresponding control goes to another account.

Illustration A2: Journal entries

If John pays P1 Shs. 200,000/= to the District for renting the District's commercial building for the month of March 2000, the journal entries will be:

Dr. Cash A/CP1 Shs 200,000/=

Cr. Rent Received A/C P1 Shs 200,000/=

Being March 2000 rent for House N10 in town B paid for by John

The posting of these entries which follows thereafter pushes the debit entry to the cash received account, which is a revenue account, reflecting the benefits the District is parting with during the month of March by letting John use the house instead of the District using the house itself.

8.5 Bank accounts, cashbooks, and ledger accounts

8.5.1 Bank accounts

A separate cashbook is maintained for each bank account opened/maintained by Districts. District shall maintain bank accounts as follows;

- **A revenue bank account** - This is where all District's revenue sources are banked before being transferred to the various department expenditure bank accounts, that is, District local revenue plus all Central Government grants/transfers;
- **A bank account for departmental expenditure** - Ledger accounts should be maintained for recurrent and development transfers. It may not be necessary for a District to have many bank accounts after introducing strong commitment controls and maintaining ledger accounts; and
- **A donor/NGO account**- where a donor/NGO makes a request to open a separate bank account, then such an account may be opened.

8.5.2 Cashbook and ledger accounts posting

A cashbook is the main book of prime entry. Cashbooks are posted directly from the receipts and expenditure vouchers. They complement each other in such a way that where for example a debit entry is posted to the cashbook, the corresponding credit entry is posted to the General Ledger.

8.5.3 What is a cashbook?

A cashbook is part of the principal book, the ledger. It comprises of both the cash and bank accounts taken out of the ledger and maintained separately for the sake of greater care and attention they deserve.

A cashbook is made of the following chambers and a folio column;

- **Cash** – The debit column records all cash receipts while the credit column one records all cash payments.
- **Bank** – Handles transactions that go through the bank account. The debit column records all cash and cheques received and banked, while the credit column one records all payments the District makes by cheque.
- **Total column** – This column shows the sum or net of cash and bank chambers balances. The cashbook will have both the debit (receipts) total column as well as the credit (payment) total column.

8.5.4 Opening a cashbook

At the beginning of each financial year, the cashbook(s) shall be opened with the previous year's balances of cash at hand or at bank.

Each bank account shall be maintained in its own cashbook. The balance on each bank account shall be entered individually. The following is an illustration on opening a cashbook.

Illustration A3: Opening a cashbook

The details of the District collections bank account in the Puntland Central Bank (PCB) are as given below for the year beginning 1 January, 2016. On the same date the District had P1 Shs 300,000 as cash on hand.

Account title	Bank	Bank Account	Code	P1 Shs '000	Remarks
Current Account	SCB	50,000	
Cash on hand				300	

The balances on each account will be posted in the respective cash or bank column of the Revenue cashbook.

Illustration A4: Revenue cashbook

Dr. (Receipts)						Cr. (Payments)					
Date	Particulars	Folio	Cash A/C ‘000	Current A/C SCB ‘000	Total	Date	Particulars	Cheque A/C	Cash A/C	Current A/C SCB	Total
Jan 1- 2016	Bal. b/f		300	50,000		Jan	Bal b/f	-	-		

8.5.5 Recording in a cashbook

Recording of cash receipts and banking as follows;

Step 1: All amounts received, whether in form of cash or cheques, shall be entered on the receipts side of the cashbook, that is, debited;

Step 2: When cash is banked, the entry that removes cash from the cash account to bank account is entered in the credit side of the cash column. The reference is given as “C”, contra;

Step 3: When banking has been made, the entry to record the banking is entered on the debit side within the bank column. The reference is “C” contra;

Step 4: Some monies may be deposited by the payer directly into the bank account to the credit of the District. On production of the bank pay-in-slip(s), the payer will be issued with an acknowledgment receipt by the main cashier after confirming the credit on the account. Using the acknowledgement receipt issued and the bank pay- in-slip(s) the amount shall be cross-referenced like any other entry. The amount shall be classified through the Revenue Abstract for the credit of the appropriate account in the General Ledger;

Step 5: Other monies may be received by direct credit to the bank account without interest received. In this case, on checking the bank statement or obtaining a credit advice from the bank an acknowledgement receipt shall be made as a basis of recording the amount into the cashbook and to the respective ledger account. The amount shall be entered on the debit side of the cashbook, within the respective bank account column, and cross-referenced. The receipt shall also be classified through the Revenue Abstract for credit of the appropriate account in the General Ledger; and

Step 6: The cashbook should be adjusted for interest, bank charges and other direct charges or credits to the bank after the bank reconciliation.

When a cheque is issued the cheque number shall be entered in the cashbook in sequential numerical order.

Illustration A5: Posting of a cashbook

Assume the following transactions for a District are posted to the cashbook for a bank account maintained in SCB.

Date 2016	Receipt No.	Amount Pl Shs '000	Date 2016	Voucher No.	Payee	Cheque No.	Amount Pl Shs '000
3/1	5007	200	4/1	001	ABC Co.	8006	2,500
10/1	5008	700	4/1	002	Imprest	8005	500
14/1	5009	500	5/1	003	CBS	8002	1,500
24/1	5010	2,800	26/7	004	Juma	8009	8,000

Illustration A5: Posting of a cashbook (continued)

Dr. (Receipts)								Cr. (Payments)							
Date	Particulars	Folio	Receipt No.	Cheque No.	Cash PI Shs '000	Bank PI Shs '000	Total PI Shs '000	Date	Particulars	Folio	Voucher No.	Cheque No.	Cash PI Shs '000	Bank PI Shs '000	Total PI Shs '000
Jan 1	Opening balance b/f				300	50,000		Jan 3	Banking	“C”			300		
								Jan 3	Banking	‘C”			200		
Jan 2	Receipts		007		200			Jan 4	ABC Co.		001	8006		2,500	
	Banking			“C”		300									
Jan 3	Receipts		009		500										
	Banking			“C”		200									
Jan 14	Receipts		008		700			Jan 4	Imprest		002	8005		500	
	Banking			‘C”		700		Jan 4	Banking	‘C”			500		
Jan 10	Banking			“C”		500		Jan 5	Banking	‘C”			700		

Dr. (Receipts)								Cr. (Payments)							
Date	Particulars	Folio	Receipt No.	Cheque No.	Cash Pl Shs '000	Bank Pl Shs '000	Total Pl Shs '000	Date	Particulars	Folio	Voucher No.	Cheque No.	Cash Pl Shs '000	Bank Pl Shs '000	Total Pl Shs '000
								Jan 5	SCB		003	8002		1,500	
Jan 24	Receipts		010		2,800										
Jan 31	Banking			'C'		2,800		Jan 26	Juma		004	8009			
									Banking	'C'			2,800	8,000	
	Direct Transfer		011			1,000			Bank charges					30	
									Balance c/f					42,970	
					----- 4,500 =====	----- 55,500 =====							----- 4,500 =====	----- 55,500 =====	

8.5.6 Checking of a cashbook

District cashbooks are to be regularly checked as follows:

- (i) At the close of business every cashbook shall be ruled off and balanced and the cash and bank balances carried forward;
- (ii) A Senior Accountant/Finance officer other than the cashier shall check the cashbook and balance it daily; and
- (iii) The cashier shall reconcile cash at hand with the cash balance shown in his cashbook at the close of each day's business.

8.5.7 Bank reconciliation

Bank reconciliation should be carried out monthly. At the end of each month, district's bank statements of all bank accounts should be collected from the bank. The statement shall be checked with entries appearing in the bank column of the respective cashbook. Expenditure vouchers shall be prepared to cover bank charges such as cheque books and commission, and receipt vouchers to cover credits such as interests on fixed deposits if any. The expenditure/receipt vouchers shall be posted in the cashbook before bank reconciliation is prepared. Bank reconciliation shall be prepared by a finance officer of the District appointed by the DAF who shall not be the cashier and shall be entered into the cash book not later than fifteen (15) days after the end of each month. The statement shall be certified as correct by the DAF or his representative.

Illustration A6: Bank reconciliation

Cashbook (bank column only)					
Jan 2016	Receipts (Dr.)	Pl Shs '000	Jan 2016	Payments (Cr.)	Pl Shs '000
1	Balance b/f	2,500	3	Cheque 0022	375
8	Deposit	875	8	Cheque 0023	563
15	Deposit	500	14	Cheque 0024	188
22	Deposit	1,187	21	Cheque 0025	1,112
29	Deposit	*375	29	Cheque 0026	*400
			30	Cheque 0027	*825
			31	Balance c/f	1,974
		5,437			5,437

District completed cashbook					
Jan	Receipts (Dr)	Pl Shs '000	Jan	Payments (Cr)	Pl Shs '000
31	Balance b/f	1,974	31	Standing Order (Rent)	150
31	Direct credit	125	31	Bank Charges	80
			31	Balance c/f	1,869
		2,099			2,099

Bank reconciliation step by step as follows;

Step 1: All debits in the bank statement shall be ticked (√) against credits in the cashbook;

Step 2: Credits in the bank statement shall be ticked (√) against the debits in the cashbook;

Step 3: The outstanding items on both the cashbook and bank statement may be identified by (*);

Step 4: The asterisked items in the bank statement are then incorporated in the cashbook (see Illustration A6 below);

Step 5: The asterisked items in the cashbook will now appear in the bank reconciliation statement (see Illustration A6 below);

Illustration A6: Bank reconciliation (continued)

Bank statement				
Jan 2016	Particulars	Dr. (Pl Shs) '000	Cr. (Pl Shs) '000	Balance (Pl Shs) '000
1	Balance			2,500
5	Cheque 0022	√375		2,125
10	Deposit		√875	3,000
	Cheque 0023	√563		2,437
16	Cheque 0024	√188		2,249
17	Deposit		√500	2,749
23	Cheque 0025	√1,112		1,637
24	Deposit		√1,18	2,824
	Standing Order	*150		2,674

Bank statement				
Jan 2016	Particulars	Dr. (Pl Shs)	Cr. (Pl Shs)	Balance (Pl Shs)
		‘000	‘000	‘000
25	Direct Credit		*125	2,799
30	Bank Charges	*80		2,719
END OF STATEMENT				

Step 6: Using the illustrations above and asterisks to denote the out-standing items in both records, the reconciliation statement for January 2016 shall be as shown below; and

Step 7: Bank reconciliation statements shall be checked and initialed by the DAF or his representative within fifteen days, after the month end.

Illustration A6: Bank Reconciliation (Continued)

Bank reconciliation statement as at 31 January 2016		
	Pl Shs	Pl Shs
Balance per bank statement		2,719
Add: Deposit not yet credited		375
		3,094
Subtract:		
Unpresented Cheques:		
Cheque 0026	400	
Cheque 0027	825	
		1,225
Balance per completed cashbook		1,869
Prepared by: Date.....		
Checked by: Date.....		
Approved by: (DAF) Date.....		

8.6 Abstract posting

Transactions are recorded on abstracts (or cash analysis book) immediately a receipt/payment is made at the same time as it is entered into the cashbook. At the end of every month the total revenue or payments appearing under different item codes in the abstracts are posted to the respective subsidiary/ ledgers maintained by accountants.

8.6.1 Abstract

The abstract (or cash analysis book) shall be used (manual accounting) as a medium of classifying data for purposes of posting to the subsidiary/general ledger accounts. Under a manual accounting system it will consist of two types:

- a) The revenue abstract (cash analysis book) that classifies receipts of revenue per programme, sub-programme and account codes; and
- b) The expenditure abstract (cash analysis book), which classifies expenditure items per programme, sub-programme and account code.

Posting to the abstract is made from source documents, such as receipts for the revenue abstract, and payment vouchers for the expenditure abstract.

8.6.2 Abstract cashbook reconciliation

Since the Abstract(s) and Cashbook(s) are each posted directly from the same voucher or receipt as the source documents and with the same information, reconciliation shall be prepared to ascertain the accuracy of their recording. The procedures to prepare the monthly proof of Abstract are as follows:

Step 1: List down all the reconciled opening bank and cash balances at the beginning of the month;

Step 2: Obtain their totals;

Step 3: Deduct the credits (overdrawn accounts) from the debits to obtain the net opening cash and bank balances;

Step 4: Add total revenue received as per revenue abstract to the net cash and bank balances. This gives total cash available for the month;

Step 5: Add any advances recovered and deposits received;

Step 6: The total is overall cash receipts for the month;

Step 7: Subtract the following from the total cash receipt:

- (i) Total expenditure as per expenditure abstract(s)
- (ii) Advances given in the month
- (iii) Deposits given.

The difference should be the closing cash and bank balances.

Step 8: List down the cash, and bank balances at the end of the month. The result should be equal to the difference obtained in (step#7) above.

8.6.3 Posting paid cheques to the expenditure abstract

Posting the paid cheques to the expenditure abstracts is carried out as follows;

- (a) All paid cheque vouchers supported by their attachments shall be classified in the expenditure abstract; and
- (b) The amounts shall be charged to the correct account codes.

Using the information in a table A1 below and assuming there were no other district cheque payments in the month, the posting to the expenditure abstract is as demonstrated in Illustration A7 below.

Table A1: District's cheque payments - April 2016

Date 2016	Voucher. No	Cheque No.	Bank	To whom paid	Code	Purpose	Amount PI Shs '000
16.04	010	145	SCB	Aish	227004	Lubricants	300
20.04.	021	180	SCB	Juma	221011	File covers	250
28.04.	029	191	SCB	Muhmud	227004	Petrol	1,6000
	030		SCB	Aisha	222001	Phone bills	5,400
	031		SCB	Juma	227001	Night allowance	1,500
	032		SCB	Juma	223005	Power Bill	7,000

The expenditure abstracts/cash analysis of the above transactions is shown below.

Illustration A7: Posting of expenditure abstract

Expenditure abstract for month of April 2016, Works Department, Folio No: ABS 1												
221011		222001		223005		227001		227004			Total
Vr.	Pl Shs	Vr.	Pl Shs	Vr.	Pl Shs	Vr.	Pl Shs	Vr.	Pl Shs	Vr.	Pl Shs	Pl Shs
6	4,750	9	280	4	1,200	7	1,500					7,730
21	250	30	5,400	32	7,000	31	1,500	10	300			14,450
								29	1,600			1,600
Total	5,000		5,680		8,200		3,000		1,900			23,780

While posting the expenditure abstract the following should be observed:

- (i) The abstract page or folio number shall be cross-referenced to the payment voucher;
- (ii) The information posted in the abstract shall be cast and cross-cast; and
- (iii) After posting to the abstract, the same vouchers shall be posted to the cashbook.

8.7 General and subsidiary ledgers

Districts shall maintain general and subsidiary ledgers in accordance with the provision of the Chart of Accounts (presented in annex 1) issued by the Accountant General.

Subsidiary and general ledgers shall be a binder, file book or computer printouts that contain several ledger accounts for recording financial transactions. General and subsidiary ledger accounts comprise two major parts, the debit and the credit sides;

- (i) The debit side of an account normally records increases in assets, expenditure, and losses. It also records reduction in liabilities, revenue, and reserves.
- (ii) The credit records increases liabilities, income, revenue, and gains and reserves. It also records reduction in assets, losses, and expenditure.
- (iii) Each entry posted to the ledger is given a brief description under the “Particulars Column”
- (iv) The posting of the ledger is cross-referenced under the folio column to the source document used for posting.

8.7.1 Posting General and Subsidiary ledgers

At the end of each month, the total of each item code that has been classified in the expenditure abstract (Illustration A7) shall be posted in the general ledger. As the abstract is prepared up to the end of the month, the date of posting to the general ledger is the last day of the month.

Using Illustration A7 data, the classified accounts shall be debited to the general ledger accounts as follows:

Illustration A8: Posting to District's General ledger

Ledger sheet No. 0001- Works Department, Item: Fuel, lubricants & oils 227004					
Date	Details	Folio	Debit Pl Shs '000	Credit Pl Shs '000	Balance Pl Shs '000
30-4-00	April Abstract	ABS 1	1,900		1,900

Ledger sheet No. 0002- Works Department, Item: Printing, Stationery & Photocopying - 221011					
Date	Details	Folio	Debit Pl Shs '000	Credit Pl Shs '000	Balance Pl Shs '000
30-4-00	April Abstract	ABS 1	5,000		5,000

Ledger Sheet No. 0003- Works Department, Item: Newspaper – 223005					
Date	Details	Folio	Debit Pl Shs '000	Credit Pl Shs '000	Balance Pl Shs '000
30-4-00	April Abstract	ABS 1	8,200		8,200

Ledger Sheet No. 0004- Works Department, Item: Telecommunications - 222001					
Date	Details	Folio	Debit Pl Shs '000	Credit Pl Shs '000	Balance Pl Shs '000
30-4-00	April Abstract	ABS 1	5,680		5,680

Ledger Sheet No. 0005- Works Department, Item: Water – 227001					
Date	Details	Folio	Debit	Credit	Balance

			Pl Shs '000	Pl Shs '000	Pl Shs '000
30-4-00	April Abstract	ABS 1	3,000		3,000

8.8 Classification of financial items

8.8.1 Chart of Accounts

A COA is a list of account names together with their codes, which are used in public financial management. To aid districts to implement modern Public Financial Management (PFM) practices and to ensure comparability of financial information, districts shall apply a uniform classification and COA to prepare and execute their budgets, maintain accounting records and for financial reporting.

The COA to be used by districts shall be issued and can only be revised by the Accountant general management. The use of a uniform COA has advantages of:

- (i) Avoiding the use of several coding structures in the entire government sector;
- (ii) Ensuring comparability of district accounts to State and National level accounts and between the districts themselves;
- (iii) Facilitating the transfer of funds to districts budgets and the accountability of these funds by the districts;
- (iv) Facilitating the implementation of a government FMIS; and

The Director of Finance shall ensure that all District's budget estimates and financial transactions are properly classified and coded.

8.8.2 Accounts codes

Example of budget and accounting applicable codes and account names as provided in the Chart of Accounts, issued by the Accountant general (**presented in Annex1**)

Code	Account name
113	Tax on properties
141	Property income
1410	Land fee
143	Fine, penalties & forfeits
1810	Domestic loan

2630	Grants
2650	Transfers
2110	Permanent staff salaries
22101	Travelling allowance
2350	Fixture and furniture
2360	Office equipment
29102	Outstanding bills

8.9 Recording of fixed assets

Fixed assets of the District shall be recorded in the fixed assets register, each asset, for instance a vehicle taking its own page see form A2 below. But identical assets for homogeneous use such as tables, chairs, desks may be grouped under one category for example furniture and report on one page¹³.

Fixed assets registers show location, title number or reference, description, cost, additions and disposals for each category of fixed assets. The purpose of these registers is to keep track of all District's fixed assets.

In case of Motor Vehicles, the register shall be as per the form A6, below:

Form A2: Register of fixed assets

XXX DISTRICT				
REGISTER OF MOTOR VEHICLES				
Folio.....				
Make/Model.....			Registration No.....	
Original Cost.....			Capacity.....	
Date acquired.....			Engine No.....	
Description.....			Chassis No.....	
Tyre Size.....			Fuel used.....	
Date	Mls/Kms	Repair and maintenance	Cost	Remarks
			Pl Shs	
		Particulars		

¹³ Refer to Appendix – B: Fixed Asset register

--	--	--	--	--	--

8.10 Annual closure of accounts

At the end of each financial (during the month of December) the Secretary for Local Government through the DAF should close accounts.

The procedures for the annual closure of accounts shall include the following:

- (i) Control accounts (ledgers) must be balanced including those summarizing the general and capital funds, stores control accounts and balances carried forward clearly indicated;
- (ii) Imprest ledgers must be fully retired and closed;
- (iii) Accounts for projects must be reconciled and unspent balances if any, shown and explained. Explanatory reports of work done, level of performance and list of materials on site must be produced;
- (iv) All books of account including vote controllers' vote books and cashbooks, revenue and expenditure accounts shall be reconciled and closed;
- (v) Any late submitted accounting entries must be journaled; and
- (vi) The boards of survey for stores and cash to examine the following:
 - (a) Cash (all cashbooks and end year bank statement balances are reconciled);
 - (b) Stores (all store ledgers); and
 - (c) Cash balances in the hands of DAF, HoDs, revenue collectors, cashiers and imprest holders, after the close of business on the last business day of each financial year, or before the commencement of business of the following financial year.

8.10.1 The Board of Survey

The board of survey shall be appointed by the Secretary for Local Government. The Board of survey must submit its signed report of findings (form A3) without delay to the Mayor, Auditor general and the Minister of Interior who will get the original copy. The detailed report will have the following information:

- (i) The missing assets/resources;
- (ii) The excess assets /resources;
- (iii) The general condition of the District's resources – whether safe or neglected;
- (iv) The assets that need to be auctioned or sold while following the correct manner of tendering and auctioning; and
- (v) Assets that can be diverted for public use or donated to another agency because of public interest.

Form A3: Report of a board of survey on cash/assets/stores*

Report of a Board of Survey on Cash/Assets/Stores* ofDistrict	
<p>To:</p> <p>On the instructions of:.....We, the undersigned, have inspected the Cash/Assets/Stores on recorded/charge at.....</p> <p>We certify that we have a * complete /... % test check of the cash/store/asset/stores*, that where the balance agreed*/don't agree, they have been signed against in the cashbook/asset register/stores ledger and that cash/assets/stores* on hand agreed with the cashbook/asset register/* ledger balance except as shown on the Form xxx attached/below*.</p> <p>We certify that in our opinion, a continuous department check on the cash/asset/stock balances* has/has *not been carried out during the year other than by the offices immediately in charge of the stores.</p> <p>In our opinion, the cash/asset/ store accommodation* is / is not adequate. The condition of the store is * good/bad. The articles* are/are not excessive or obsolete stocks (*See list attached.</p> <p>* A list of unserviceable stores is shown on Form xxx together with our recommendation as to their condition/recovery/ and disposal*.</p> <p><i>(Space for any further comments)</i></p>	
<p>We certify that the articles so indicated on Form xxx have been destroyed by *in our presence/in the presence of;</p>	
Members of the Board's name	Signature
1)	
2)	
3)	
4)	
<p>* Delete as necessary. State method of destruction. Insert title of officers convening the Board. If the Board has recommended the dismantling or disposal by sale of a Government vehicle, the Head of Department may anticipate approval of the Board's recommendation in this</p>	

respect. In this case, he should state in details what action has been taken and send a copy of this Form to the Chief Mechanical Engineer.

Form A4: Statement of discrepancies

If no discrepancies, insert "Nil". The Members of the Board must sign this statement immediately below that last entry).

Article/ Cashbook/ Asset register*	Book Balance	Actual Balance	Surplus	Deficit	Book Value (or cost) Pl Shs '000	Remarks* Sale/destroy Recover.
Members of the Board's name				Signature		
1)						
2)						
3)						
4)						
5)						
* Delete as necessary. If necessary provide more remarks on a separate sheet						

9 Financial reporting

9.1 Introduction

The objective of financial record keeping is to be able to provide financial accountability for the actions of the different managers and staff within a district. Financial accounting systems must ultimately end with relevant and reliable information in the form of financial reports. The reports will be read and used by the different stakeholders to make decisions. This chapter deals with the financial statements (reports) which are prepared by districts for use by stakeholders. Given the stewardship role, whereby the District Council is entrusted with public funds the financial reports should be simple, comprehensive, and standardized for purposes of comparability and for ease of understanding by the reader.

9.2 Legal reporting requirements

According to Puntland Law No.7 of 2003, the Secretary for Local Government is supposed to prepare the final (annual) accounts and the financial report.

In addition, the Ministry of Interior has the power to inspect the assets and activities of the local councils and, in the same way, the Auditor-General shall be responsible for the audit of their management and finances.

Districts shall produce quarterly and annual financial statements using the principle of a cash basis of accounting.

9.3 Quarterly financial statements

Every District Council Secretary for Local Government shall produce quarterly statements of financial statements every end of quarter (not later than 15th of the month following the end of the quarter) and submit to the Executive Committee (formats presented below):

- 1) Districts Consolidated Statement of Cash Receipts and Payments
- 2) District's Statement of Comparison Of Budget and Actual Amount
- 3) District's Statement of Payments by Programs/ Activities/ Functions
- 4) District Consolidated Cash Flow Statement For The Year Ended December 31 20XX

9.4 Annual financial statements

Every Secretary for Local Government is required to produce statements of financial statements within three months after the end of each accounting period in accordance , for submission to the Auditor General and must include the following (formats presented below):

- 1) Districts Consolidated Statement of Cash Receipts and Payments

- 2) District's Statement of Comparison of Budget and Actual Amount
- 3) District's Statement of Payments by Programs/ Activities/ Functions
- 4) District Consolidated Cash Flow Statement for the Year Ended December 31 20XX

Illustration F1: Financial Statements

DISTRICTS CONSOLIDATED STATEMENT¹⁴ OF CASH RECEIPTS AND PAYMENTS
FOR
YEAR ENDED
DECEMBER 31, 20XX

RECEIPTS ONLY	notes	20XX		20XX-1	
RECEIPTS		Receipts district's	By third parties	Receipts districts'	By third parties
Taxation					
DOSR ¹⁵					
Property tax		X	-	X	-
Other taxes		X	-	X	-
		X	-	X	-
External assistance	10				
Donor funds		X	X	X	X
NGO's funds		X	X	X	X
		X	X	X	X
Other Borrowings					
Proceeds from borrowing	3	X	X	X	X
		X	X	X	X
Capital receipts					
Proceeds from disposal of plant and equipment		X	-	X	-
Trading activities					
Receipts from trading activities		X	-	X	-
Other receipts	4	X	X	X	X
Total receipts		X	X	X	x

¹⁴ For details refer to Cash basis IPSAS 1

¹⁵ Totals of each of the major District Own Source Revenue (DOSR)

		(payments) controlled by district	(Payments) by third parties	(payments) controlled by district	(Payments) by third parties
PAYMENTS operations					
wages, salaries and employee benefits		(X)	(X)	(X)	(X)
Supplies and consumables		(X)	(X)	(X)	(X)
		(x)	(X)	(X)	(X)
Transfers					
Grants to other LGs		(X)	-	(X)	-
Other transfer payments		(X) (X)	- -	(X) (X)	- -
Capital Expenditures					
Purchase / construction of plant and equipment		(X)	(X)	(X)	(X)
Purchase of financial instruments		(X) (X)	- (X)	(X) (X)	- (X)
Loan and Interest Repayments					
Repayment of borrowings		(X)	-	(X)	-
Interest payments		(X) (X)	- -	(X) (X)	- -
Other payments	5	(X)	(X)	(X)	(X)
Total payments		(X)	(X)	(X)	(X)
Increase / (Decrease) in cash		X	-	X	-
Cash at beginning of year	2	X	N/A	X	N/A
Increase and decrease in cash		X	N/A	X	N/A
Cash at end of the year	2	X	N/A	X	N/A

DISTRICT'S STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT

	Actual amounts	Revised budget	Original approved budget	Difference: Revised budget and Actual
CASH INFLOWS				
Taxation	X	X	X	X
DOSR ¹⁶				
Property tax	X	X	X	X
	X	X	X	X
Proceeds: borrowing				
Proceeds: disposal of plant and equipment	X	X	X	X
Trading activities	x	X	X	X
Other receipts				
Total receipts	X	X	X	X
CASH OUTFLOWS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Administration and Finance	(X)	(X)	(X)	(X)
Works	(X)	(X)	(X)	(X)
Tax	(X)	(X)	(X)	(X)
Planning	(X)	(X)	(X)	(X)
Internal Audit	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	(X)	(X)	(X)	(X)
NET CASH FLOWS	X	X	X	X

Additional Financial Statements (Optional)

Additional financial statements may be prepared to provide details of amounts included in the consolidated statement of cash receipts and payments: for example to disclose information by major fund groups or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

Statement of Cash Receipts by Fund Classification

	200X Receipts controlled by entity	200X-1 Receipts controlled by entity
RECEIPTS		
Total District Revenue	X	X
Special Funds	X	X
Trading Funds	X	X

¹⁶ Totals of each of the major District Own Source Revenue (DOSR)

Loans	X	X
Total receipts	X	X

PROCEEDS OF BORROWINGS

	Note	Cash receipts controlled by entity	Resulting from payments by third parties	Receipts controlled by entity	Resulting from payments by third parties
(in thousands of currency units)					
BORROWINGS					
Domestic commercial institution		X	-	X	-
Total borrowings		X	-	X	-

**DISTRICT'S STATEMENT OF PAYMENTS BY PROGRAMS/ ACTIVITIES/
FUNCTIONS**

(in thousands of currency units)	20XX		20XX-1	
	Payments by District	Payments by third parties	Payments by District	Payments by third parties
PAYMENTS/ EXPENDITURE				
Operating/Recurrent account				
Health	X	X	X	X
Education	X	X	X	X
Administration and Finance	X	-	X	-
Works	X	-	X	-
Tax	X	X	X	X
Planning	X	X	X	X
Internal Audit	X	-	X	-
Other Total payments/ expenditure	X	X	X	X
Payment/ expenditure				
Capital/Development account				
Health	X	X	X	X
Education	X	X	X	X
Administration and Finance	X	-	X	-
Works	X	-	X	-
Tax	X	X	X	
Planning				
Internal Audit	X	X	X	X
Other	X	X	X	X
Total payments and expenditure				
Total operating and capital accounts	X	X	X	X
	X	X	X	X

District's Cash Flow Statement¹⁷ (Direct Method)

District Consolidated Cash Flow Statement For The Year Ended December 31 20XX		
CASH FLOWS FROM OPERATING ACTIVITIES.	20XX	20XX-1
Receipts		
Taxation		
DOSR ¹⁸	X	X
Property tax	X	X
Proceeds: borrowing	X	X
Proceeds: disposal of plant and equipment	X	X
Trading activities	X	X
Total Receipts	X	X
Payments		
Employee costs		
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Total payments	(X)	(X)
Net cash flows from operating activities	X	X
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	(X)	(X)

¹⁷ For details refer to cash basis IPSAS 2

¹⁸ Totals of each of the major District Own Source Revenue (DOSR)

Appendix A: List of International Public Sector Accounting Standards

IPSAS 1	Presentation of Financial Statements
IPSAS 2	Cash Flow Statements
IPSAS 3	Net Surplus or deficit for the Period, Fundamental Errors and Changes in Accounting Policies
IPSAS 4	The Effect of Changes in Foreign Exchange Rates
IPSAS 5	Borrowing Costs
IPSAS 6	Consolidated Financial Statements and Accounting for Controlled Entities
IPSAS 7	Accounting for Investments in Associates
IPSAS 8	Financial Reporting of Interests in Joint Ventures
IPSAS 9	Revenue from Exchange Transactions
IPSAS 10	Financial Reporting in Hyperinflationary Economies
IPSAS 11	Construction Contracts
IPSAS 12	Inventories
IPSAS 13	Leases
IPSAS 14	Events after the Reporting Date
IPSAS 15	Financial Instruments: Disclosure and Presentation
IPSAS 16	Investment Property
IPSAS 17	Properties, Plant and Equipment
IPSAS 18	Segment Reporting IAS 14

IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets
IPSAS 20	Related Party Disclosures
IPSAS 21	Impairment of Non-Cash Generating Assets
IPSAS 22	Disclosure of Financial Information about the General Government Sector
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
IPSAS 24	Presentation of Budget Information in Financial Statements
IPSAS 25	Employee Benefits
IPSAS 26	Impairment of Cash-Generating Assets
IPSAS 27	Agriculture
IPSAS 28	Financial Instruments: Presentation
IPSAS 29	Financial Instruments: Recognition and Measurement
IPSAS 30	Financial Instruments: Disclosure
IPSAS 31	Intangible
IPSAS 32	Service Concession arrangements

