

FINANCIAL MANUAL

OF THE

**NORT EAST HOUSING RECONSTRUCTION
PROGRAMME
[NEHRP]**

**WORLD BANK AND EUROPEAN COMMISSION
FUNDED PROJECT**

TRINCOMALEE

Revised in March 2008

FOREWORD

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The IDA (World Bank) and the North East Provincial Council (NEPC) entered into an Agreement dated 15 February 2005 for the implementation of the "North East Housing Reconstruction Programme". Subsequently, he Programme witnessed two events, namely, the signing of the European Community Grant Agreement dated 26 June 2006, whereby the European Commission co-financed this project and the Amendment to the Development Grant Agreement dated 16 August 2007 following the de-merger of the NEPC. Consequently, the Government decided to re-designate the Ministry of Nation Building and Estate Infrastructure Development (NB & EID) as the new implementing agency in place of NEPC. Accordingly, the necessary amendments have been made to the Financial Manual.

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In terms of the financial covenants, the NEPC (now NB & EID) shall establish and maintain a financial management system, including records and accounts and prepare financial statements in a format acceptable to the Association. The operations, resources and expenditure relating to this programme shall be recorded in accordance with sound accounting practices by the NEHRP.

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The project duration is about seven years duration, and the construction of low cost Housing under civil works, procurement of goods and provision of skill training in housing construction are the tasks of the programme.

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This Hand Book is being issued as a guidance document to the institutions and the officials involved in the project implementation activities to perform their tasks rapidly, efficiently and effectively and to achieve the desired targets.

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C.Pathmanathan,

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Project Director,

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North East Housing Reconstruction Programme,

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INTRODUCTION

1. Programme

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The International Development Association has given concurrence for North East Housing Reconstruction Programme at the project cost of US \$77.0 Mn for the Programme for a period of 4 years commencing from January 2005. Subsequently, in June 2006, European Commission co-financed this programme by the provision of a cash Grant of US \$7.5 million (Euro 5 880 000), representing 85 % and the Government of Sri Lanka (GOSL) providing US \$1.32 million in counterpart funds. In 2008, European Commission and GOSL made further contributions of US \$13.95 million (Euro 9.8 million), and US \$2.46 million respectively, in the same proportions. Under the co-financing arrangement, IDA is the administrator of the Trust Fund provided by the Commission of the European Communities.

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2. Background

This assistance came out of the Government initiative to form a development plan for Relief, Rehabilitation and Reconstruction (RRR) under the Prime Minister's office in 2003. The participation came from the Government, Civil community, individuals, and donors, NGO's etc. The need for funds gave rise to the request from housing reconstruction for donor community.

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3. Objective

The objectives of the credit by the IDA is to provide

- a) Reconstruction of houses for the poor damaged during the ethnic conflict.
- b) Supporting the return of displaced population in the North East.
- c) Contributing to the resumption of economic activity in the war-devastated region through increased construction activity.

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4. Credit Component

IDA contribution was US\$ 75 M and the government contribution was US\$ 2 M in counterpart funds. The programme components are as follows:

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A	Housing Assistance	69.60 M
B	Capacity Building	4.60 M
C	Programme management	1.28 M

CHAPTER – I

North East Housing Reconstruction Programme (NEHRP)

5. Tenure of Programme

North East Housing Reconstruction Programme (NEHRP) was designed to use IDA and EC funds to finance the reconstruction of houses. Following the increase in the cash grant paid to the beneficiaries from Rs.150 000 to Rs.250 000, in respect of fully damaged houses, the number of houses to be reconstructed under the programme got reduced to 31 270. With the provision of cash Grant by EC, NEHRP included a further 3 514 houses for reconstruction/repair. The total caseload works out to 34 784 houses.

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6. Sector Component

The sector covers the following,

	Sector	Allocation Rs. In million
A	Housing Assistance	69.60
B	Capacity Building	4.60
C	Programme management	1.28

7. Cost Component

The above IDA sectoral components are again classified under the following cost components

No.	Expenditure	Category	IDA financing US\$	Domestic fund US\$
1	Housing Reconstruction (works)	1	69.7	00
2	Goods	2	0.7	0.2
3	Services	3	3.2	1.2
4	Training	4	1.9	0.2
5	Incremental operating cost	5	0.1	0.1

The EU Grant is classified under the following cost components:

<u>No.</u>	<u>Expenditure</u>	<u>EC Grant Euro</u>	<u>EC Grant US \$</u>	<u>% of Expenditure financed by EC</u>	<u>GOSL Domestic Fund US \$</u>	<u>% of expenditure financed by GOSL</u>	<u>Total US \$</u>
1	Housing Reconstruction (works)	5 680 000	7 245 000	85 %	1 278 530	15 %	8 523 530
2	Incremental Operating Cost	200 000	255 000	85 %	45 000	15 %	300 000
	Total	5 880 000	7 500 000		1 323 530		8 823 530

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8. Permissible Civil Works, Services & Supplies

The following items of civil works, services and supplies can be procured under the NEHRP

i. Civil Works (Category – 1)

The civil works generally comprise:

- a) Repairs and reconstruction of damaged houses

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ii. Goods & Equipment (Category 2)

Goods and equipment includes:

- Vehicles, Motorcycles
- Computers, Printers, UPS & Soft wares
- Communication, MS equipments and software
- Photocopiers
- Office furniture
- Office equipment

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Communication MS equipments and software

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- Digital camera
- Multi Media, visual aids

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iii. Services (Category -3)

Services could be hired for NEHRP.

- Procurement support and designs
- Preparation of bidding documents
- Supervision of civil works
- Technical audit of civil works
- Support for partner organization
- Communication, Campaign & information Dissemination
- Continues social impact assessment
- Follow up Environmental Impact Assessment
- Study for Housing Finance
- Programme implementation by the Partners Organizations
- Skill Training for Construction
- Technical assistance for Management Information System

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iv. Training (Category 4)

Building - up implementation capacity of the staff of NEPC

- In-house training programmes
- National and International training programmes and study tour
- Community training

v. Incremental Operating Cost (Category 5)

The cost incurred for programme on account of maintenance of:

- Office administration
- Office equipment & vehicles
- Office space or overhead
- Staff salaries & allowances
- Travel cost

9. Bank Funding

In terms of the Agreement the category of expenditure and the percentage of expenditure (eligible expenditure) that would be financed by the World Bank are as follows:

Category	Category Expenditure	Percentage of expenditure to be financed by IDA
1	Civil works	100%
2	Goods	100%
3	Services	100%
4	Training	100%
5	Incremental Operating cost	100%

CHAPTER – II
IMPLEMENTATION STRATEGY

10. Lead Role

The North East Provincial Council is responsible to carry out the procurement and other activities envisaged in the agreement. It shall ensure that:

- a) Civil works are carried out in accordance with designs, standards and technical specification acceptable to the Association.
- b) There is no involuntary re-settlement.
- c) in accordance with environment, assessment and management frame work and the social safeguard frame work.
- d) Ensure that the Ministries, departments and other agencies responsible for implementation of the agreement do so in accordance with the plan and no changes are made that would affect the capacity of these agencies.
- e) Activities relating to reconstruction and repairs are done strictly in accordance with acceptable norms and standards.
- f) Monitoring and evaluation is done on an on going basis, results of monitoring and evaluation and the progress made are prepared and forwarded to the Association by December, 31st 2004 and review with the Association by February, 2005 and take all measures required to ensure efficient completion of the Programme.

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In pursuance of these obligations the NEPC shall in conformity with administrative, financial and technical procedures provide the necessary funds, facilities, services and other resources required for the implementation of the Programme.

11. Procurement Methods

Goods, works and services shall be procured in accordance with the WB policies: the Guidelines Procurement under IBRD Loans and IDA Credits, January 1995 and as revised in January and August 1996 September 1997, January 1999 and may 2004. Consultants will be selected in accordance with the Guidelines: Selection and Employment of Consultants by World Bank Borrowers, January 1997 and as revised September 1997, January 1999, May 2002 and May 2004 with IDA Procurement Guidelines and Guidelines for selection and employment of

Consultants. Procurement shall be made using Sri Lanka [specific ICTAD standard bidding document or any other documents agreed with IDA.](#)

12. CIVIL WORKS & GOODS

i. Civil Works:

Civil works mostly comprises of repairs and reconstruction works, which are of a comparatively small nature around 36,800 fully, damaged house, and 9,2800 partly damaged houses are to be reconstructed and repaired respectively. Subsequently,

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ii. Goods:

Goods and equipment approved for procurement under the Programme shall be handled in the following manner:

Expenditure Category	Contract Value Threshold (US\$)	Procurement Method
1. Works	30,000 and above per contract	NCB
2. Goods	500,000 and above per contract Below 500,000 Below 50,000 Proprietary items, software, seeds, plants, books, periodicals etc.	ICB NCB Shopping Direct Contracting
3 (a) Community Contracting Works	All	Direct by the beneficiary
Community Contracting (Goods)	All	Shopping Direct Contracting by the beneficiary or CBOs
4. Services	200,000 and above per contract	QCBS (in specific cases, method of procurement can be other than QCBS, which will be mentioned in the procurement plan).

13. BIDDING PROCESS

To ensure economy, efficiency and transparency the following guidelines should be adhered to:

- (i) Invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;

- (ii) Bid documents shall be; made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) Qualification criteria shall be stated in the bidding documents, and, if a registration process is required, a foreign firm declared; as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;
- (v) Bids shall be opened in public in one location, immediately after the deadline for submission of bids;
- (vi) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (vii) Contracts shall be awarded to the lowest evaluated bidders;
- (viii) Post bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (ix) Re-bidding shall not be carried out without the Association's prior concurrence;
- (x) All bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xi) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by the Association;
- (xii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xiii) Bids shall not be; invited on the basis percentage premium or discount over the estimated cost;
- (xiv) Extension of bid validity shall not be allowed unless justified by exceptional circumstances; and
- (xv) There shall not be any restriction on the means of delivery of the bids.

14. Services

- _____ Consultancy assignment.
- Technical Audit of construction. - QCBS__
- Continuous Social Impact assessment - QCBS__
- Follow up Environmental Impact Assessment - Individual_____
- _____
- Support to partner organization - CQS
- Communication campaign & Information dissemination - CQS
- Study for Housing Finance - QCBS

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- Technical support - fees for partner organizations - CQS
- Skill Training for Construction Labourers (several contracts) - CQS/SSS
- TA for Management Information System - CQS

15. Operational Functions

~~Under the Project Agreement, Ministry of Nation Building and Estate Infrastructure Development was the Executive Agency for NEHRP while the NEPC was the Implementing Agency. Following the de-merger of NEPC and establishment of Northern Provincial Council and Eastern Provincial Council, Ministry of Nation Building and Estate Infrastructure Development (NB & EID) was designated as the new Implementing Agency. NEHRP established the reporting arrangements governing implementation with the Ministry of Nation Building and Estate Infrastructure Development. Accordingly the IDA Credit Agreement was amended on 16 August 2007 to accommodate the change.~~

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The Project Director shall in turn be responsible for the implementation of the Programme. All support staff and other facilities shall be provided.

CHAPTER – III

BUDGETING

16. Responsibility

The responsibility for the budget, implementation, monitoring and evaluation lies with the chief secretary NEPC. ~~Subsequently, this function devolved upon the M/NB & EID. As implementing arm, the Project Director is~~ responsible for this task.

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17. The Budget

17.1 The Programme shall have an overall budget for the duration of the Programme and an annual budget for the year in particular. This will be under the Programme component as specified in the donor agreement.

17.2 The Programme budget should thereafter be re-classified in terms of the G.O.S.L budgetary classification to be included in the national budget.

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17.3 The duration of the Programme is four ~~and a half~~ years commencing from 2005

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18. Financial Year

The financial year commences on 1st January and ends on the 31st December of that year.

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Quarterly budget estimates shall also be prepared for disbursement purposes

19. Budget Process

In the preparation of the overall budget and the budget for the particular year, the following should be taken into consideration

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- The terms and conditions laid down in the agreement
- The duration of the Programme
- The capacity and the capability of the implementing agencies
- Availability of the technical and other support staff
- The nature of the works, services and supplies to be executed
- Any other extraneous factors

20. Annual Work Plan

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In line with the annual budget, an annual work plan should be prepared on the basis of plans and programmes [approved by Donor](#).

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21. **Review of Budget and Annual Plan**

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There should be an ongoing process of review and reallocation of funds on a quarterly basis in view of changing needs, situation and circumstances.

22. **Programme Profile**

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The reconstruction programme is to reinforce the link between peace and development in a post conflict and emergency situation in the North East Provinces.

Major activities of the Programme are –

a) [Reconstruction of houses of the poor damaged by the conflict.](#)

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b) [Supporting the return of displaced population in the North East.](#)

c) [Contributing to the resumption of economic activity in the war devastated region through increased construction activity](#)

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23. **Performance Indicators**

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Expected key performance indicators are

- Number of Housing units reconstruction under NEHRU.
- Time taken to complete the repair of a housing unit
- No of persons trained in masonry and carpentry

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CHAPTER – IV

FINANCIAL MANAGEMENT

24. General

Programme financial management is an integral aspect on Programme management. It includes mobilization, utilization and controlling the financial resources in a Programme. It encompasses sourcing of funds, preparing detailed budgets, forecasting and establishing procedures for disbursing funds, instituting and monitoring Programme accounting system and controlling Programmes financial operation.

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25. General Supervision and Control

The Secretary, Ministry of Nation Building and Estate Infrastructure Development) as the Chief Accounting Officer at the center, shall lay the broad framework within which the financial transactions should be carried out. After de-merger, Secretary, M/NB & EID shall maintain general supervision and control over the funds. The Project Director shall implement the Programme subject to the regulations and instructions of the GOSL as well as the terms of Agreement and the IDA Guidelines.

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26. Accountability

The Secretary, Ministry of Nation Building and Estate Infrastructure Development) as the Chief Accounting Officer is accountable for all financial transactions and payments of the Programme. He may assign his functions to the Project Director.

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27. Organization

The organization chart is annexed. (Annexure I)

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28. Delegation

There should be a North East Housing Reconstruction Unit (NEHRU) in the NEPC to coordinate the activities of the entire Programme and to be responsible for allocation of funds, execution, accounting and reporting. The Chief Secretary (and as from 1.01.2007, the Secretary, Ministry NB & EID) shall assign the functions to the Project Director.

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29. North East Housing Reconstruction Unit (NEHRU)

The NEHRU will initially map into the Provincial Ministry of Rehabilitation and Reconstruction and will include Project Director, Financial Management Specialist, Engineer, Environmental Specialist, Social Development Specialist, Information, Education & Communication Specialist.

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The Financial Management Specialist shall be responsible for the financial operations of the Programme.

The main Programme activities include

- Preparation of a composite implementation plan
- Breaking up into tasks and activities
- Assigning of tasks and fixing responsibility
- Arranging for procurement of works, supplies and services
- Engagement of consultancy services
- Organizing workshops and training
- Monitoring and evaluation

30. Financial Management Tasks

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Financial Management tasks among others include

- Establishing a detailed time phased financial plan
- Establishing and monitoring the Programme accounting system
- Establishing set procedures for smooth flow of funds
- Establishing systems that will record and monitor the Programme expenditure to facilitate flow of information for the preparation of periodic management reports for decision making
- Establishing accounting principles and accounting standards for furnishing financial statements to IDA, Treasury and other agencies
- Establishing procedures to facilitate Programme audit

31. Delegation of Financial Authority

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The FMS of NEHRU shall prepare a schedule of delegation of financial authority by name or designation and the financial limits of such authority in consultation with the Project Director, and obtain the approval of the Chief Accounting Officer of the M/NB & EID. The delegation should be in writing and copies of such delegation circulated among all authorizing, approving, certifying and paying officers.

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CHAPTER - V
DISTRICT PROJECT OFFICES (DPO)

32. Structure at District Level

There shall be a District Project Office set up at the District level to liaise the activities between the NEHRU at the centre and other implementing agencies the Divisional Secretaries, NGOO, NHDA, other State Agencies and private contractors. In all there will be eight DPOO responsible to the Project Director, by executing and reporting direct to him.

33. Delegation

The Project Director shall delegate his functions to the District Deputy Project Directors for the smooth implementation of the activities of the Programme. The Project Director shall in turn assign the financial functions to the Accountant and also ensure that there is a fair and equitable distribution of duties and functions. The Accountant shall prepare a scheme of delegation of financial functions for the DPO and obtain District Secretary/Government Agent's approval.

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34. Authorization

An officer, who is empowered, to commission supplies, works or services, is referred to as Authorizing Officer. The decision to make such an authorization is in his discretion and he must accept full responsibility with regard to it. An officer empowered to commission supplies, works or services will do so in writing and should be responsible in the following respects: -

- a. That the work, supply or service is covered by appropriate authority, and falls within the scope of the voted provision or other authorized financial provision and/or is properly chargeable to the accounts involved.
- b. That he exercises due judgment; that he does not exceed the specified limits of his authority; and that every step in the procedure set down in the regulations and other instructions have been duly taken (e.g. decisions of tender boards);
- c. That the commitments which are expected to mature for payment in a particular financial year do not exceed the funds available in his respective allocations;
- d. That the sums due on commitments as they arise against each of his allocations (or his allocations to other departments) and the amounts recorded are subjected to continuous review in the light of further information that becomes available as work progresses.
- e. That the information mentioned in (d) above is passed periodically to the Certifying Officer;

- f. That his records are compared and reconciled at least once a month with those of the Certifying Officer so that he may know precise amount available for further commitments;
- g. That in any case involving reasonable doubt as to the availability of funds, or as to the economy or financial propriety of transactions generally, he seeks the advice of Accountant in charge of accounting operations.

35. Approval

An officer who is empowered to approve services, works or supplies on completion and to admit claims is referred to as Approving Officer. He will be responsible for verifying.

- a. That the work, service or supply arises out of an authorization by the appropriate Authorizing Officer and/or out of an Agreement;
- b. That the work or service has been performed or the supply rendered in terms of such authorization and/or a relevant Agreement and any authorized variations there from in any respect, especially with regard to compliance with terms relating to quality of materials used, the quantities and the period or periods of time within which portions of the contract have to be completed;
- c. That the rates and the total sums approved for payment are in accordance with authorized scales or in terms of the Agreement or any authorized variations and where there is no authorized or standard rates or Agreement, that the rates are fair and reasonable.
- d. That in a contract of employment the appropriate conditions, rules and regulations have been complied with;
- e. That in the case of supplies, they have been examined and correctly taken on charge or otherwise accounted for;
- f. That in the case of bills for payment of electricity, gas, water, telephone and other similar services supplies, they are checked with registers kept to show the monthly meter readings and other relevant particulars. If the amounts billed in a particular month deviate widely from the average normal monthly consumption pattern, such cases should be investigated and remedial action, where necessary, taken.

36. Certification of Vouchers

An officer who is empowered to certify vouchers is referred to as Certifying Officer. He is responsible to see: -

- a. That the amount payable on each voucher is a correct charge on the relevant account, and is covered by appropriate authority;

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- b. That the payment will not cause an excess on the amount provided for the current financial year and that it has been posted in the appropriation (votes) ledger or other appropriate ledger, under the relevant account.
- c. That the payees shown on the face of the voucher are the persons entitled to payment and that the amount provided for payment to each of them is correct;
- d. That he attests on the face of the voucher that he has himself either from personal knowledge or from certificates, statements or orders of officers empowered to give them, that the provisions relating to authorization and approval have been complied with;
- e. That an indication of the fact that he has certified a voucher for the payment involved, is made on the records, files or other relevant documents, in order to prevent another voucher for the same payment being certified subsequently;
- f. That the certificates, etc, referred to in (d) above, are attached to the voucher or that the latter bears a note quoting reference to the files in which they appear;
- g. That all relevant deductions and those notified to him or authorized or required to be recovered have been made, particularly in respect of repayment of advances, contributions, surcharges, penalties, forfeitures or other liabilities.
- h. That the voucher is accurate and complete in every detail and reference to relevant files certificates invoices etc. are noted on the voucher itself.

37. Payment of Vouchers

An officer who is empowered to make payments on certified vouchers is referred to as paying officer. He will be responsible to see:

- a. That every voucher accepted for payment has been certified by an officer who has the authority to do so;
- b. That the voucher shows no evidence of having been tampered with since it left the certifying officer's hands;
- c. That any facts within special knowledge are duly taken into account before payment is made;
- d. That a proper receipt is obtained for every payment made;
- e. That the identity of the payee is established
- f. That in the case of a payment by cheque, money order, etc. the name and other particulars appearing on the cheque or on the money order application, agree with those shown on the face of the voucher;
- g. That the net amount shown on the face of the voucher is duly paid; and the fact of payment noted on the voucher by means of a "PAID" stamp and initiated; All the documents attached to the voucher too should be stamped with "PAID" stamp.

- h. That every payment is promptly noted in the prescribed records and duly brought to account;
- i. That where cash is entrusted to his care, he takes due precautions against theft or loss; and that the balance in hand agrees with the balance appearing in the cash book at the close of each day's business;
- j. That, in the case of cheque payments,
 - ❖ The Bank balance is adequate to meet all payments,
 - ❖ The number of the cheque is noted on the voucher;
 - ❖ The balance is reconciled periodically with the bank statement

38. Bank Accounts

1. First Signatory

Where payment is made by cheque, the cheque should be signed by two officers who have been duly authorized by the Project Director. The first signatory shall sign on the left of the space or on the first line provided for signing the cheque. He shall be deemed to be the paying officer, The second signatory should sign either below or to the right of the first signatory. The counterfoils should be initiated in the same way. The principal responsibility for the accuracy of the cheque shall be that of the paying officer.

2. Second Signatory

The second signatory to a cheque should be an officer who has no responsibilities under 37, and will be responsible to see: -

- a. That the first signatory has the authority to sign the cheque;
- b. That the cheque shows no evidence of having been tampered with since it left the first signatory's hand
- c. That the name, amount and other particulars appearing on the cheque agree with those shown on the voucher;
- d. That the voucher has been certified by an officer authorized to do so;
- e. That the first signatory has complied with Para 37 (g) above.
- f. That he initials a suitable endorsement on the voucher to indicate that payment has been made.

39. Preparation of Vouchers

- 39.1 **Originating a Voucher** – Except otherwise provided for, a voucher may be prepared by the Approving Officer and passed on to Certifying Officer for certification. In the case of payments to staff or certain categories of payments to outside parties the relevant claim or vouchers may be originated by them and presented to the respective office of payment.
- 39.2 **Preparation and checking** – Officers who prepare vouchers and officers who check them should initial in the spaces provided for the specific purpose.
- 39.3 **Classification** – Classification of expenditure should be correctly done. Code and the description of the account and sub accounts should be stated. The code, sub code item and description of accounts should correspond exactly to the titles appearing in the Chart of Account.
- 39.4 **Particulars of service rendered** – All vouchers should contain full particulars of service rendered with reference to dates, numbers, quantities, distances, rates etc. to enable them to be checked, as far as possible, without reference to any other document.
- 39.5 **Reference to Annexure** – Where certificates, sub vouchers, under receipts or other documents are attached to the payment vouchers, the fact that they are annexed should be indicated on the voucher itself with brief details.
- 39.6 **Petty Payments** – When number of payments of similar nature of small value and chargeable to the same object code of expenditure or to the same account arise, they may be included in one voucher, the receipt of the payees being annexed as sub vouchers.
- 39.7 **Gross Amount** – The voucher should always be prepared for the gross amount to be debited to the voted provision or other account. Any recoveries due should be indicated on the body of the voucher itself.
- 39.8 **Amount to be expressed in words** – The amounts for which the voucher or abstract is drawn should be entered in words as well as in figures. Care should be taken not to leave space in between for any fraudulent interpolations before or after every entry.

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39.9 **Recoveries** – When a recovery has to be made from a payment, the full amount due, unless otherwise authorized, should be recovered. When an amount is due from a payee on one account it may be recovered from the amounts due to him on any other account.

40. **Recovery of full or part of the amount payable**

When a recovery has to be made from the amount of a voucher, only the balance due if any should be paid to the payee. If the full amount of the voucher has to be recovered and the recovery can be settled by transfer entry, the voucher should be crossed and marked "X Entry" in red ink and full particulars of credit should be given thereon. It will be treated as a "Cross Entry". If the recovery cannot be settled by "X Entry", the recovery should be settled by drawing out a cheque in favour of the or other party concerned.

41. **Receipts and Handling of Cheque Books**

41.1 **Precautions**

In respect of receipt and handling of cheque books the following precautions should be taken.

- a. The Chequebooks and their counterfoils should be kept in safe custody in charge of an officer delegated for the purpose.
- b. At the time of receipts all cheque leaves should be counted and ensure that they are numbered with the relevant account number.
- c. All cheque leaves should be crossed "NOT NEGOTIABLE"
- d. The bank should be requested to supply "ORDER" cheques only. If the work "BEARER" appears on cheques, that word should be effectively deleted and the word "ORDER" substituted therefore.

41.2 **Register**

A register should be maintained to record the following in respect of chequebooks received.

Date of receipt

Cheque Book Number

No. of Cheque leaves

Printed Cheque Numbers of each cheque book

Date of issue of each Cheque book to the officer for the purpose of writing Cheques

The date on which the last Cheque was written

Date of destruction of counterfoils

41.3 Security Measures

Cheques should be handled only by authorized officers. When the Cheques are carried from one place to another, adequate security measures should be provided.

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42. Drawing of Cheques

The procedure that should be followed in the drawing of Cheques is given below for compliance.

- a. In drawing Cheques no extra space should be left enabling fraudulent interpolations before or after words and figures written on the cheques, written words and figures should commence as close as possible to printed words and figures on the Cheque and a line should be drawn to fill the space left after what is written.
- b. Where the payee is denoted by his designation, it should be written in full and abbreviations i.e. "P.M.G." or "G.M.R" should not be used for "Postmaster General" or "General Manager of Railways".
- c. In writing the date of the cheque, the month should be written in words.
- d. Indelible ink should be used in writing Cheques unless a computer, or a cheque writer is used.
- e. Where a Cheque has to be drawn in favour of a bank to the credit of payee's account, the name and account number should be stated on the body of the Cheque or in its reverse and duly authenticated by the paying officer. If the details of the accounts are shown in a separate statement forming an annexure to the cheque, such statement should be referred to on the body of the Cheque and the statement itself authenticated by the paying officer. Such statement should bear a distinct reference to the Cheque to which it is annexed.
- f. The important details such as date of the Cheque, voucher number, name of payee the amount in figures should be written on the counterfoil of each cheque drawn.

43. Period of Validity

43.1 Thirty Days Rule

The validity of all cheques issued should be restricted to thirty days from the date of issue, unless the authority for a longer period of validity under special circumstances has been obtained from the Treasury. The period of validity should be clearly indicated on the face of the Cheque. Wherever possible the bank may be requested to have the validity period printed on each Cheque leaf.

43.2 **Extension of Validity**

If the period of validity of a Cheque has already expired or due to be expired before its realization, it may be extended for a further period not exceeding thirty days from the date such validity is extended by making a suitable endorsement to that effect on the Cheque. The endorsement should be signed ~~by two officers authorized to sign cheques.~~

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43.3 **Examination before Revalidation**

Before extending the period of validity of a Cheque, the cash book and counterfoils of the Cheque should be examined to ensure that the Cheque has not already been cancelled or treated as a lost Cheque or that the payment thereon has not been stopped.

43.4 **Required Entries**

The extension of validity should be noted in red ink in the counterfoil of the Cheque and against the appropriate Cheque number in the uncashed Cheque list of the bank reconciliation statement of the previous month and cheque revalidation register and initialed by the officers signing the endorsement on the cheque.

44. **Signing of Cheque**

44.1 **Two Signatories**

Cheque should be signed by two officers whose specimen signatures have been registered with the bank. Cheques should be signed preferably in special indelible ink used for writing of Cheques.

44.2 **Responsibilities of the First Signatory**

The responsibility of the first signatory is that of the paying officer as described in Para 38.1

44.3 **Responsibilities of the Second Signatory**

The responsibility of the second signatory is described in Para 38.2

45. **Spoilt and cancelled Cheques**

When a cheque is spoilt and cannot be used it must be effectively cancelled. A cheque cancelled for this or any other reason must be affixed to the counterfoil and retained in the Cheque book. Counterfoils of cheques should be held in custody and destroyed

after they are passed in audit or at the end of five years from the date of the last cheque in the particular chequebook has been issued, if it is not required for any other purpose.

46. Cheques crossed with "Account Payee Only"

This special crossing means that the amount of the cheque should be credited to the Payee's bank Account only. Hence, when a payee has an account in the Bank, the cheque in his favour should be crossed Account Payee – All cheques drawn in favour of Government Departments, Local Authorities, state Corporations, statutory Boards and Institutions, Public Companies, Registered Private. Companies or Corporations and Contractors should always be crossed "Account Payee Only"

47. Payment by Cheques

47.1 Arrangements for cheque payments

When a bank account is operated all payments as far as possible, must be by cheques. Payments of Rs.1000/= and over may not be made in cash to outside parties. In cases where the payee is unable to sign or the payment is for a group of person, it is easier to pay in cash or make a special request for payment in cash. An officer authorized to sign or make a special request for payment in cash. An officer authorized to sign cheques or any other senior staff officer may authorize such payments to be made in cash, after establishing the payee's identity.

47.2 Deductions and Remittances – The drawing of cheques for payments below Rs.100/= should as far as possible be avoided except in the case of deductions from salary.

48. Bank Overdrafts

The officers in charge of a bank account and the cash book should ensure that the bank balance is adequate to meet all payments by cheques. For this purpose, the cash book should be correctly totaled up and the balances carried forward on a daily basis. Official bank accounts should not be overdrawn.

49. Posting and handing over of cheques

49.1 Registered Post

All cheques, except "open" cheques and other cheques personally handed over should be sent by Registered post irrespective of the amounts involved.

Cheques written in favour of a bank account should be posted to the relevant bank. A register of cheques posted and handed over should be maintained in every office.

49.2 **Handing Over**

In handing over of cheques the following requirements should be complied with

- a) A cheque should be handed over to a payee or any other person only on authorization by the officer who is a signatory to the cheque, and he is properly identified. He or she should be requested to produce the National Identity Card or any other valid identity. Number of the identity card should be written in the register for handing over of cheques after satisfying that the correct identity of the person has been sufficiently established. Where the cheque is in favour of a public or private institution/company and a person comes to collect the cheque should be requested to produce a letter from his organization stating his name, specimen signature, reference of identity and authorizing him to collect the cheque. This letter should be referred to an officer who is a signatory to the cheque. If the officer satisfies himself on the authority of the letter he may authorize the handing over of the cheque to the person concerned.

50. **Paid Vouchers**

All paid vouchers should be kept in safe custody in the consecutive order of their numbers. Action should be taken to see that all vouchers are perfected and made ready for Audit. Officers having custody of paid documents should keep them under lock and key to prevent unauthorized persons having access to them. Acknowledgements should be obtained when paid documents are passed on to any officer even for official purposes. Officers responsible for the loss of any paid document may be dealt with under disciplinary procedure.

51. **Books and Records to be maintained by the District Programme Units**

56.1 The following books and record should be maintained by the District Programme Units.

01. Cash Book
02. Appropriation Ledge
03. Journal
04. Imprest Register (for receipt of Imprest from NEHRU)

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05. Imprest Reconciliation Register
06. Imprest Register (for release of sub-Imprest to other units)
07. Contracts Register
08. Register to Record minutes of the Tender Board
09. Register of Advance
10. Petty Cash

52. Periodic Reporting

The District Programme Units will render the following reports to NEHRU monthly.

- Monthly Summary Accounts (CIGAS)
 - Imprest Reconciliation
 - Bank Reconciliation
 - Payment Progress Report
 - Statement of Expenditure as per the World Bank requirement to prepare FMR.
- Sample forms are annexed in Annexure 2, 3 & 4.

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53. Asset Management

53.1 Fixed Assets

The District Project Offices should maintain adequate records to account for fixed assets and inventory items procured through Programme funds. Arrangements should be made to preserve and safeguard them until they are transferred or otherwise disposed of in terms of the Programme objectives.

53.2 Physical Verification of Assets

At the end of the year the fixed assets and inventory registers should be balanced. A Board of Survey should be appointed to verify the physical existence of assets and submit their report to the District Project Director.

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54. Internal Audit

The internal audit appointed by the Secretary, M/NB & EID shall carry out a continuous survey and independent appraisal on the activities of the Programme at the District level and shall report to the Project Director.

They shall also act where appropriate as a liaison between those engaged in the Programme task and activities and the Project Director.

The continuous audit, inter alia, shall cover the internal control systems at the District Project Office, timely utilization of imprest received execution of tasks, accounting and reporting to the NEHRU.

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CHAPTER - VI
CHART OF ACCOUNTS

55. Chart of Accounts

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55.1 To make available financial data for user needs it is essential that a chart of accounts, suitable to the Programme activities be maintained. It is a means of classifying accounting data for better management accounting to the Programme component, work categories, source of funding etc. The preparation of periodical statement and final accounts are made easier and timely.

55.2 The chart of accounts of a donor-funded Programme should be designed to capture. sources and uses of funds, assets and liabilities.

Sources of funds include IBRD and GOSL while uses of funds will cover total expenditure broken down to Programme components, activities, source of funds, location etc.

56. Coding system

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The coding system consist of 10 digits

The first 4 digits represent the Account number

The next 1 digit represents the Programme category

The next 2 digits represent the IDA cost category

The next 2 digits represent the funding source

The last 1 digit denote the location

The first nine digits are numerals

The last digit is alpha

CHAPTER VII

FUNDS FLOW

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57. Loan Declared Effective

After the approval of the loan and the loan declared effective, the Ministry of **NB & EID** shall initiate action for the Programme to commence activities.

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58. IDA Loan Accounts

There is a Programme **loan** agreement, with IDA and the **Project Director**, shall apply through the line Ministry, and the Treasury to open a separate special \$ account at the Central Bank. On the recommendations of the Department of External Resource the Department of Treasury Operations shall request the Central Bank to open the account.

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59. Special \$ Accounts

There is a special \$ account in operation at the Central Bank for PPF.

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Sub Ledger Account No

Initial Imprest

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Initial Imprest as indicated above has been obtained by forwarding withdrawal application through the line Ministry/Department of Treasury Operations to the Central Bank.

60. Fund Flow Diagram

Diagram depicting the flow of funds is attached. – Annexure 5; 5– 1

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61. Cash Operations by NEHRP

The Programme shall have two bank accounts

- One account for the Programme operations.
- One account for the release of imprest to District Project Office

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62. Withdrawal Procedures

The Programme will withdraw funds under the following procedures. It should be noted that funds can be drawn only for eligible expenditure authorized under the credit.

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The World Bank Disbursement Handbook provides the necessary guidelines in this regard.

- Direct Payments
- Reimbursement on a SOE basis
- Special commitments

Direct payments are for high value purchases where the borrower requests the donor to pay the contractor or supplier direct.

Reimbursement procedure is the generally followed practice of drawing funds on a withdrawal application supported by SOE within specified limits.

Commitment procedure is followed where the borrower makes an application to the Central Bank to pay the Contractor/Supplier direct.

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63. Use of Special Dollar Accounts

When Programme activities commence and the initial deposit is credited to the Special Dollar Account, the NEHRU shall request Reimbursable Foreign Aid (RFA) imprest from the Treasury, Department of Treasury Operations through the Ministry of Nation Building and Estate Infrastructure Development.

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The DST (Treasury Operations) will release the advance of RFA and DF if required for the implementation of the Programme. When the NEHRU makes the application to withdraw funds from special dollar account, the Central Bank will reimburse the funds to the DST accounts.

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64. Flow of Funds

Whenever funds are required the Project Director shall forward withdrawal applications under the above account to the Treasury through the normal channels.

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- The Treasury Operations Department on the recommendations of the Line Ministry will recommend and forward the applications to the Central Bank.
- The Central Bank shall debit the credit account and transfer funds to the DST's account.
- The Department of Treasury Operations shall release imprests against voted provision to the Ministry of Nation Building and Estate Infrastructure Development.
- The Ministry of Nation Building and Estate Infrastructure Development shall release the imprest to NEHRU.

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- Immediately on receipt of imprest the Ministry of Nation Building and Estate Infrastructure Development shall release the same amount of imprest to the NEHRU.

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The NEHRU will use the existing procedures for advancing funds to the District Programme Units. The DPUS will reconcile the imprest and report to the NEHRU on a monthly basis in the usual format. The NEHRU will report the monthly summary of all imprest reconciliation to the M/NB & EID every month.

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65. Withdrawal application for Replenishment

When funds are utilized for the purposes intended under the Programme, action shall be taken to forward withdrawal application for replenishment to the special \$ account.

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Withdrawal application must be sent monthly irrespective of the amounts disbursed. The applications must be accompanied by the bank reconciliation statement, special account reconciliation statements and other supplementary documents.

Summary sheet form should be submitted with full documentations along with the withdrawal applications in respect of

- Contracts for civil work costing \$ 500,000 equivalent or more
- Contracts for goods costing \$ 250,000 equivalent or more
- Contracts for consulting firms costing \$ 100,000 equivalent or more
- Contracts for individual consultants costing \$ 50,000 equivalent or more

Statement of Expenditure procedure should be followed when withdrawals are sought for expenditure in respect of

- Contracts for civil works costing less than \$ 500,000
- Contracts for goods costing less than \$ 250,000
- Contracts for consulting firms costing less than \$ 100,000
- Contracts for individual consultants costing less than \$ 50,000 equivalent or more
- Workshops and training
- Force account works
- Payment to IDPs
- Incremental operating costs

Formats of SOE statements are attached – Annexure 2, 3 & 4

66. Replenishment to the Special \$ Account

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On acceptance of the claim by IDA the amount will be replenished to the special \$ account maintained by the Central Bank.

67. Monthly Reporting

District Project Office should reconcile and report monthly reconciliation of imprest to the NEHRU. The NEHRU shall report the monthly summary of imprest reconciliation to the Ministry of B & EID every month.

68. Direct Payment

In the case of direct payment, the withdrawal application shall be forwarded to the Bank with advice to pay the Contractor/Supplier direct. The bank will effect payment debiting the loan account. This disbursement shall be reflected in the Central Bank Bulletin and will be accounted by the Treasury.

69. Financial Management & Accounting Responsibilities

The Project Director is responsible for the Financial Management function of this programme. Programme funds will be included in the budget of M/NB & EID and will be managed, accounted for and reported to IDA by the Project Director, NEHRP through M/NB & EID. Quarterly financial monitoring report will be prepared by the NEHRP.

70. Implementation of Programme

Overall responsibility for implementation and accounting rests with the Secretary, M/NB & EID and the Project Director

71. A. Bank Accounts for NEHRU

The NEHRU will open and maintain an official bank account in Colombo with the Bank of Ceylon, Taprobane Branch in order to facilitate the imprest flow from DST and M/NB & EID.

B. NEHRU Office (Two Bank Accounts)

The NEHRU will maintain two Bank Accounts in Trincomalee one for the main imprest account and the other for the NEHRU office operation.

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The following Provincial Ministry and Departments shall open separate bank account for the smooth operation of the programme.¶

<#>Department of Building¶

<#>Department of Irrigation¶

<#>Department of Local Government for Capacity Building Civil Works¶

<#>Department of Local Government for Water Supply Civil Works¶

¶

The implementing department will release sub imprest to its district office for the exact amount needed to pay any completed voucher(s). As such there is no need to open bank accounts for the district office. This is very essential in order to reduce procedural delay multiplicity of reporting and tied up liquid funds.¶

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CHAPTER – VIII ACCOUNTING

72. Accounting Policy

Accounting records conforming to the generally accepted accounting principles and Sri Lanka Accounting Standard shall be maintained.

- The accounts shall be maintained on cash based accounting system.
- Depreciating of assets will not arise; as the Programme does not own any assets except those procured for distribution to other agencies.
- The record shall be suitably adopted to meet donor requirements.
- Any other accounting policies adopted shall be disclosed in the final accounts.

73. Accounting System

The accounting system gathers, processes and organizes accounting data in order to produce useful financial information required by the North East Housing Reconstruction Unit, the borrower, the bank and all other agencies.

The system should:

- Provide information compatible with accounting standards
- Be simple and user friendly
- Be capable of installation and maintenance by the staff
- Provide adequate documentation and audit
- Provide reliable and timely information
- Be a base for generation of financial monitoring reports and other statements
- Maintain integrity

74. Accounting Procedures

This programme will follow cash based accounting. However, financial rules do not provide for adequate classification of Programme expenses to extract information by Programme components. Further, Financial regulations do not provide regular recording and reporting on physical and procurement information as required by the Financial Management Reports (FMR) guidelines of the IDA.

Therefore, extra efforts need to be made to ensure that Programme expenses are classified according to the Programmes components so as to be able to produce the FMR's, as per the agreed formats.

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All accounting records should be kept manually as well as in the computer integrated government accounting system (CIGAS). All additional records and reports shall be maintained manually most likely using an Excel Spreadsheet. Though this is deemed adequate for meeting the reporting requirements of the programme, NEPC will explore the possibility of adopting suitably the computerized integrated Programme management reporting system of NEIAP for this programme as well in due course.

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75. Accounting Records

Separate set of books should be maintained at NEHRU in respect of IDA Credit and EC Grant as part of a good programme management system. Accordingly, the following accounting records and registers should be kept to achieve sound financial accounting, internal control and reporting systems.

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|----|--------------------------------------|----------------------|--|
| 01 | Cash Book | - | A general cashbook or classified cash book to be maintained to record receipts and payment. |
| 02 | Ledger | ❖ | General Ledger - To maintain account on a double entry system and to ensure that accounts are maintained according to categories of expenditure laid down by the bank. |
| | ❖ | Appropriation Ledger | - To control the financial provision in terms of the budget. |
| 03 | Journal | - | To record all adjustments, which are not recorded either in the cashbook or any other books of prime entry. |
| 04 | ❖ Register of Withdrawal Application | - | To record the particulars of withdrawals and reimbursements. (Separate register for the three lines of credit and for Direct Payment) |
| | ❖ Imprest Fund Register | - | To record the withdrawals from the special \$ account maintained at the Central bank. |
| | ❖ Record of Reimbursable Foreign Aid | - | To maintain details of RFA expenditure submission of claims and re-imburements. |
| 05 | Contracts Register | - | To keep a record of all contracts awarded by the NEHRP |
| 06 | Advance Register | - | To record payment and recovery of advances granted for various purposes. |
| 07 | Petty Cash Register | - | To meet payments of petty expenses |
| 08 | Letter of credit Register | - | To record particulars of all LCC opened. |

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 - ❖ Fixed Assets & Inventory Register - To record purchase and disposal of assets.
 - ❖ Register of Consumable stores - To record purchase and distribution of consumable stores

- 10 Classification register - To classify expenditure according to Programme components/categories as per chart of accounts.

- 11 Register of local training and local consultants - To record details of scholarships and training provided under the Programme
- Register of International Training and International Consultants - To record details of scholarships provided under the Programme.

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CHAPTER – IX
INTERNAL AUDIT

76. Internal Audit

NEHRU shall ~~establish an~~ Internal Audit ~~Unit~~ to carry out a continuous audit of the NEHRU and the ~~District Programme Units~~.

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(a) To participate in the system of internal control and to carry out a continuous survey and independent appraisal of the Programmes operations and the soundness and adequacy of the internal checks adopted in the prevention and detection of frauds.

(b) To assist ~~NEHRU~~ in ~~ascertaining the progress made on the~~ Programme activities and the fulfillment of the plans and programmes laid down.

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(c) To act where appropriate as a liaison between those engaged in the tasks and the ~~Project Director~~.

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77. Continuous Audit of the NEHRU

Continuous audit at the North East Housing Reconstruction Unit inter alia will cover

- a. Adequacy of internal control systems in place
- b. Proper utilization of flow of funds
- c. Adherence to rules and regulations
- d. Timelines and accuracy of recording and reporting
- e. Compliance with tender guidelines in procurement
- f. Forwarding of withdrawal applications
- g. Safeguarding of assets
- h. Generation of quarterly FMR and Annual Accounts

78. Internal Audit Programme

There shall be an internal audit programme drawn up by the internal audit unit and approved by the ~~Director~~. Internal Audit checks and examination of documents, records etc will be ~~in conformity~~ of this programme.

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79. Special Investigations

The internal audit unit will also carry out special investigations on the directions of the ~~Project Director~~.

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CHAPTER – X REPORTING

80. Reports, Statements, Accounts to be rendered

The following reports, statements, accounts, etc should be rendered to the respective institutions.

80.1 IDA

- (a) Work plan and projected cash flow statement
- (b) Withdrawal applications for direct payment, re-imbursements etc.
- (c) Quarterly Financial Monitoring Reports.
- (d) Annual Financial Accounts of the Projects.

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80.2 Department of National Planning

- (a) Work plan for inclusion in the Development Plan
- (b) Copy of quarterly progress reports sent to IDA

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80.3 Department of National Budget

- (a) Draft estimates of the project as per formats provided by the Treasury

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80.4 Department of Treasury Operations

- (a) Statement of provision for projects funded from Foreign loans.
- (b) Imprest application for RFA
- (c) Expenditure report on RFA expenditure accounted through monthly summary
- (d) Monthly Return on RFA
- (e) Imprest Reconciliation statement of RFA after the close of the year
- (f) Statement confirming the correctness of debits raised by Treasury.
- (g) Copies of Re-imbursement applications submitted to donor
- (h) Monthly Performance Report

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80.5 Department of Public Finance

- (a) Copy of the Final Accounts of the project with audit observations and replies thereto.

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80.6 Department of External Resources

- (a) A report on progress of utilization of loan funds

- (b) Copies of re-imbusement applications sent to donor
- (c) A statement on status of RFA
- (d) Return of scholarships and training facilities and studies
- (e) Application for opening of Special Dollar Accounts
- (f) Copy of Quarterly Financial Monitoring Report sent to donor

80.7 Auditor General

- (a) Annual financial statements supported by supplementary statements
- (b) Copy of monthly return of re-imbursable foreign Aid
- (c) Copy of return of scholarships and training facilities & studies
- (d) Copies of quarterly progress reports sent to donor

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80.8 Central bank

- (a) Application for opening of special dollar account
- (b) Withdrawal application form special dollar accounts through the department of Treasury Operations

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81. Quarterly Reports

The main vehicle through which the performance of project funded by IDA in monitored is the Financial Monitoring Report (FMR). This report should be rendered to the donor with copies to Auditor General. DG External Resources, Line Ministry, DG National Budget every quarter within 45 days after the end of that quarter.

82. Financial Monitoring Report

The Financial Monitoring Report FMR is a change from the Project Management Report (PMR) that was rendered earlier. Although the FMR is somewhat similar it has been simplified to facilitate generation of reports. It should be adoptable and should provide sufficient information to establish whether

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- Finds disbursed are being used for the intended purposes
- Project implementation is on track
- Budgeted costs will not be exceeded

83. Contents of FMR

The form and content of the FMR is determined at the time of project appraisal. It will consist of

- (a) Financial Reports
- (b) Physical Progress Reports

(c) Procurement Reports

Financial reports should include a statement showing for the period and cumulatively – year to date cash receipts by sources and expenditure by main expenditure classifications, beginning and ending cash balance of the project, and supporting schedules comparing actual and planned expenditure.

Physical progress reports include narrative information and output indicators, linking financial information with physical progress, and highlights issue that require attention.

Procurement reports provide information on the procurement of goods, civil works and the selection of consultants and in compliance with agreed procurement methods. The reports compare procurement performance against the agreed plans or subsequently updated, and highlights key procurement issue the report also include information on contract variations information on complaints by bidders, unsatisfactory performance by contractors and any major disputes.

84. Scope of the FMR

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The FMR encompasses the programme as a whole as described in the PAD. The source of funds shall include the donor funds. GOSL contribution and any other funds from other donors and contributions in kind if available.

85. Currency of the FMR

The currency in which the reports will be prepared is the currency in which the borrowers normally keep their accounts. In the case of the programme it should be in Sri Lanka Rupees. As the special accounts are in dollars exchange fluctuations are likely and has to be provided for in the opening and closing balances. This should be disclosed as a note in the FMR.

86. Variance Analysis

Financial reports show variances between planned and actual costs. In the same way physical progress monitoring reports and procurement reports show variances between planned and actual outputs and contracting. Significant variations should be analyzed, and explanations, together with the remedial actions to be taken, should be set out in the reports.

87. Monitoring Physical Progress

Monitoring expenditure in relation to physical is a key aspect of ensuring that project costs are under control. Project components need to be identified and a set of activities

set out so that they can be related to outputs. In the case of the NEHRU outputs can be related to

- (a) No. of damaged house reconstructed
- (b) No. of damage house repaired
- (c) No. of masons and carpenters trained

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88. Format of FMR

There can be no standard format as the projects are of various complexities and nature. The formats have to be designed to suit the project in question. The formats adopted for the NEHRU are in Annexure 6.

89. Statements to accompany withdrawal Application

The following supporting documents should accompany the withdrawal application for replenishment to the special \$ account.

- (a) S.OE statements on due formats
- (b) Copies of contracts, LCC or other supplementary documents
- (c) Special account reconciliation statement
- (d) Special account bank statement

90. Review of Procurement by IDA

The following contracts require prior review by the IDA

- (a) ICB contracts for goods –
First two contracts and all contracts over US\$ 250,000
- (b) NCB contracts for goods & works
First two contracts for work and goods and all contracts for works costing over US\$ 500,000
- (c) Consultancy contracts –
Consultancy contracts with estimated cost of US\$ 100,000
Or above for firms and US\$ 50,000
Or above for individuals

These should be identified in the FMR.

CHAPTER – XI
ANNUAL ACCOUNTS

91. Financial Statements

The North East Housing Reconstruction Unit(NEHRU) should submit annual financial statements to the Auditor General as required by the donor agreement. In terms of the regulations, the financial statements should be submitted for audit before 30th April and the audited annual financial statements shall be submitted to the IDA on or before 30th June of the ensuring year. These statements should include not only donor funds but also GOSL funds and others if any.

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The annual financial statements include

- a) Balance Sheet
- b) Sources and Application of funds
- c) Receipt and expenditure statement
- d) Statement of Expenditure SOE
- e) Special Accounts

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The key principles of project accounting are

- a) Full accountability for all funds
- b) Adequate disclosure of information in the financial statements.
- c) A true and fair view of the financial performance and status
- d) An independent review of accounts and accounting systems

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92. Balance Sheet

Balance sheet is the financial position or standing taken as at a particular point of time, which is used to evaluate the overall financial condition as at that date. The elements directly related to the measurement of financial position in a balance sheet are assets, liabilities, and equity. The balance sheet should be presented in such a way that the information is meaningful to the users; presentation of comparable data from the previous year is essential.

93. Sources and Application of Funds

The main feature of the financial statements is the sources and application of funds. This statement provides information as to the sources of inflows i.e. donor funds, GOSL contributions and income from any other sources and how the funds were utilized. These statements provide information for the current period as well as on a cumulative basis since the project started, comparison of actual expenditure should be shown and significant variations explained.

94. Receipt and Expenditure Statement

The receipt and expenditure statement reveals the results of operations for the given accounting period.

95. Statement of Expenditure (SOE)

The statement of Expenditure (SOEs) used for drawing funds from the special accounts should be integrated in the project financial statements at the close of the year.

96. Special Accounts

Special accounts are revolving accounts where the IDA provides the initial advance for the implementation of the project with the Central bank. Eligible expenditure can be met by the borrower and forward a withdrawal application supported by SOE. The Central Bank will debit the special account and credit the amount to the DST's account. Thereafter the borrower has to forward a withdrawal application to the IDA for replenishment. Monies drawn from the special account are either for direct payments made or for expenditure already incurred. The special account financial statement is a summary of the sources and application of funds.

97. Audit by the Auditor General

The Auditor General shall audit the accounts of the project in terms of the constitution and in terms of the donor agreement.

The Auditor General or any person authorized by him shall in the performance and discharge of his duties and functions be entitled.

- To have access to all books, records, returns and other documents
- To have access to stores and other property
- To be furnished with such information and explanations as may be necessary for the performance of such duties and functions

The Auditor General shall within six months after the close of each financial year and as and when he deems it necessary report on the performance and discharge of his duties and functions under the constitution and the loan agreement.

98. Audit Compliance

The overall objective of a traditional audit of an organization's financial statements is for the auditors to express an opinion as to whether the statements are fairly presented in conformity with Sri Lanka Accounting Standards. Audit can be classified into financial statement audits, compliance audits and operational audits.

The Auditor General in terms of the agreement shall carry out auditing of the financial statements of the NEHRU and forward his observation.

CHAPTER – XII
MONITORING AND EVALUATION

99. Provincial Programme Co-ordinating Committee (PPCC)

A Provincial Programme Co-ordinating Committee will be set up to oversee NEHRP implementation and address bottle necks. Provincial Level monitoring of the activities shall be done by the Committee.

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100. North East Housing Reconstruction Unit (NEHRU)

The NEHRU shall carry out a monitoring and review exercise throughout the project implementation period. A quarterly review meeting should be held.

The objectives of these reviews are:

- (a) To ensure that the activities are going on as per implementation plan.
- (b) When changes are done in the plan it does not exceed the budget.
- (c) Necessary approvals of the IDA and other authorities are obtained when there is a shift of priorities from one component to another.
- (d) To identify activities that had not achieved the target.
- (e) To identify activities which have delayed
- (f) To identify activities the progress of which are disproportionate with financial cost and physical progress
- (g) To take corrective action on activities which deviate from the plan.
- (h) To revise the work plan to suit the exigencies that arises from time to time.
- (i) To ensure that activities are on track in regard to cost and time schedules.

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101. Evaluation

The progress of evaluation is to study and assess the programme input against output and outcome and the social, economic and other impacts on the beneficiaries. These studies done at the desk as well as in the field are programme. It is imperative that by continuous monitoring any shortcoming in the performance of activities could be overcome to reach the expected goals.

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102. Key Performance Indicators

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Key performance indicators have been identified and linked to the budget. The output and outcome already identified should be kept as bench marks in achieving the targets at the end of the programme.

103. Levels of Monitoring

Monitoring and evaluation of performance of the programme is done at various levels.

- (a) Programme Level
- (b) NEPC Level
- (c) Ministry Level
- (d) Treasury Level
- (e) National Level

Apart from the periodic monitoring and evaluation done at the above levels by the GOSL the donors also conduct desk review and site visits to assess the progress of the programme. The FMS reports are used for desk reviews.

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104. Benefit Monitoring and Evaluation (BME)

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The final event of the planning process is monitoring and evaluation and to assess whether the objectives of the programme have been realized. mid term evaluation and post evaluation are done. The effects and impacts of the programme outputs and outcome to beneficiaries are studied in detail. The ultimate aim of this exercise is to take corrective action during the project period or at the end to introduce lessons learned into incoming programmes.

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CHAPTER – XIII
HIGHLIGHTS ON PROCUREMENTS

105. Applicability

The IDA guidelines on procurement and the GOSL guidelines on Government Tender Procedure should be followed. Where there is a deviation, the IDA guidelines or the specific provisions in the agreement shall apply.

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106. Authority to Handle Tenders

The authority limits to handle tenders and recommend awards of tender of the NEHRU are as follows:

Project Tender Board up to Rs.100 Mn.

Department Tender from Rs.100 Mn. to Rs.250 Mn.

Secretary appointed Tender Board from Rs.250 Mn. To Rs.500 Mn.

A Project Tender Board will be appointed.

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107. Approving Authorities

The authorities for approving decisions taken by the respective tender boards are as follows:

Project Tender Board

Project Director

M/NB & EID

Secretary, M/NB & EID

The Secretary, M/ NB & EID shall be in overall charge of all procurement activities.

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108. Composition of Tender Board /Technical Evaluation Committee

The composition of the tender board and Technical Evaluation Committee shall be as given in the guidelines on Government Tender Procedure. Appointments shall be made by the Secretary, M/NB & EID.

Appointment of Project Tender Board shall be made by the Secretary, M/NB & EID, on the recommendation of the Project Director.

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109. NEHRU Procurements

88.1 The project consists of a large variety of procurements

Civil works - Civil works mostly comprises of repairs and reconstruction works, which are of a comparatively small nature around 36,800 fully damaged houses and 9,280 partly damaged houses are to be reconstructed and repaired respectively.

Goods & Equipment - Includes purchase of vehicles, motorcycles, computers and a variety of office equipment and training materials.

Consultancy Services - Includes procurement of services of consultants as given below: -

Consultancy Services

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- Technical Audit of construction - QCBS
- Continuous Social Impact assessment - QCBS
- Follow up environmental Impact assessment - Individual
- Support to partner organization - CQS
- Communication campaign & Information Dissemination - CQS
- Study for Housing Finance - QCBS
- Technical support – fees for partner organizations - CQS
- Skill Training for construction labourers (several contracts) - CQS/SSS
- TA for Management Information System - CQS

110. Prior Approvals

The approvals that should be obtained from IDA and other authorities in the procurement process are:

- a. Items of civil works should be forwarded to IDA for “No objection”
- b. List of items of goods to be procured should be approved by the IDA.
- c. Purchase of vehicles after IDA concurrence should have the approval of the Ministry of Triple ' R'
- d. Bid documents for ICB, NCB should be approved and approved by the tender board.
- e. The procurement plan should be prepared and approved by the tender board.
- f. Bid opening schedule should be sent to IDA for information
- g. The tender board recommendations should be approved by IDA before award of tender and signing of contract.
- h. Copies of agreements should be sent to IDA for record.
- i. Any deviation in the scope of work, or change in the list of items of goods, or increase or decrease in the quantity, or deviation from the conditions or specifications should have the approval of the IDA.

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Deleted: 98-2. Civil works are entrusted to Building Dept., Irrigation, RDD, CLG etc and these procurement of works should be handled by the executing agencies in terms of authorities delegated to them and subject to tender board limits applicable to them.¶
 ¶
 98-3 Bulk of the procurement of goods and consultancy services are assigned to the Chief ¶ Secretary, NEPC and some part to the Health Ministry.¶
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 98-4. A break down of the procurement activities are given appendix 6.¶
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111. Information to Ministry of ~~NB & EID~~

The line Ministry of ~~RRR~~ is the executing agency for the NEHRP. It is essential that copies of documents relating to all tender advertisements, specifications and related documents should be sent to the Ministry for their information and perusal.

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- Deleted: Local Government, Provincial Councils & Home affairs.¶
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112. Allowances to Members of the Tender Board /TEC

91.1 The following payments can be made to members of the Tender Board

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- a) Tenders more than 25 Mn. - up to 100 m. - Rs. 1,000/=
- b) Tenders more than 2 M. up to 25 M - Rs. 500/=

91.2 The following payments can be made to members of the TEC maximum number should not exceed three.

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- a) Tenders more than 50 M – up to ~~100 M.~~ - Rs. 1,000/=
- If the report is submitted within 21 days - Rs. 2,500/=
- b) Tenders more than 20 M – up to ~~50 M.~~ - Rs. 500/=
- If the report is submitted within 21 days - Rs. 1,500/=

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- c) Tenders more than 10 M – up to 20 M. - Rs. 500/=
- Tenders more than 2 M – up to 10 M. - Rs. ~~400/=~~

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North East Housing Reconstruction Programme Organization Chart

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Secretary
Ministry of Finance & Planning

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Secretary
Ministry of NB&ID

Programme Director

Financial Management
Consultant

Information, Education &
Communication Specialist

Social Development
Specialist

Environmental
Specialist

Monitoring & Evaluation
Specialist

Procurement Specialist

Engineering
Specialist

Land Settlement
Officer

Internal
Auditor

Engineering
consultant

Continues
Social Impact
Assessment
Team

Technical
Audit
consultant

Deputy Project
Director
NEHRU

Deputy Project
Directors
08 Districts

Project
Accountant

Administrative
Officer

Development
Officer

Supporting
Staff

Supporting
Staff

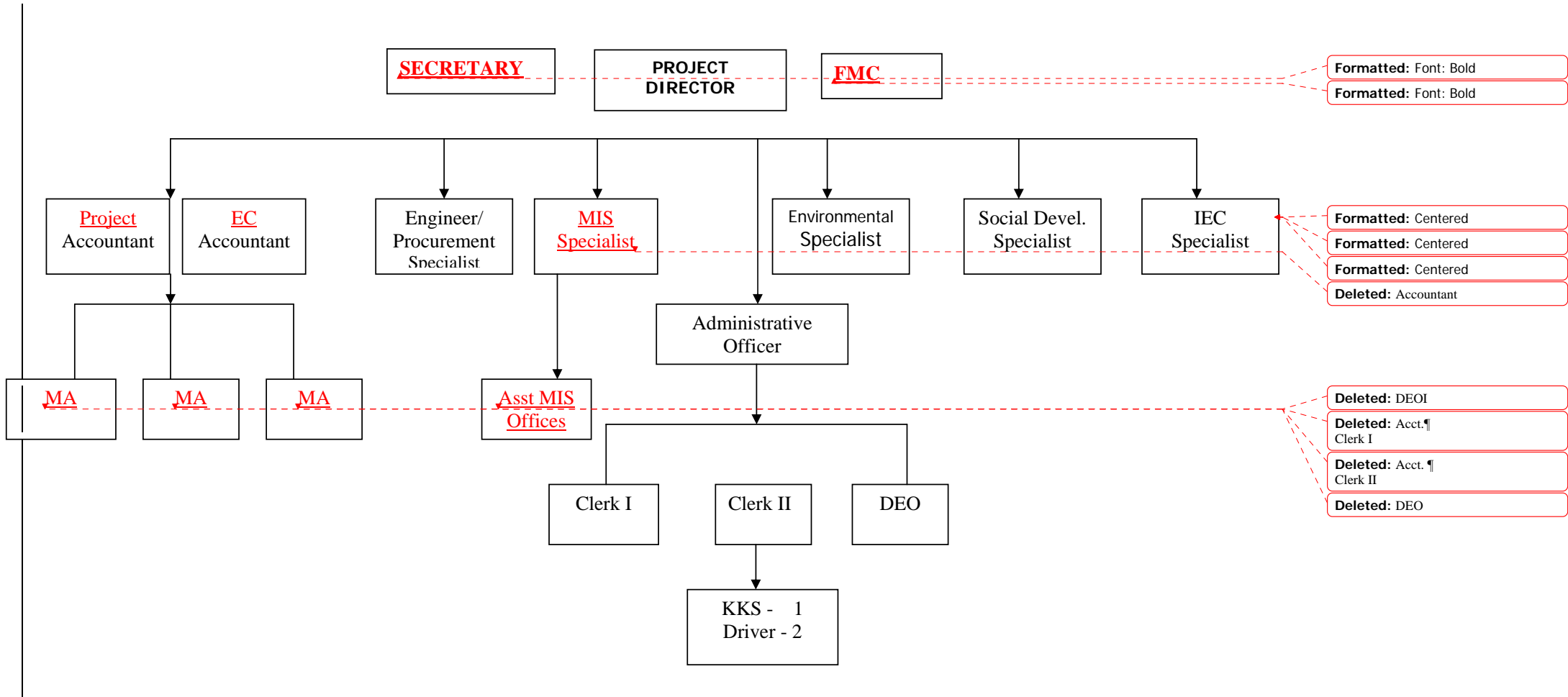
Supporting
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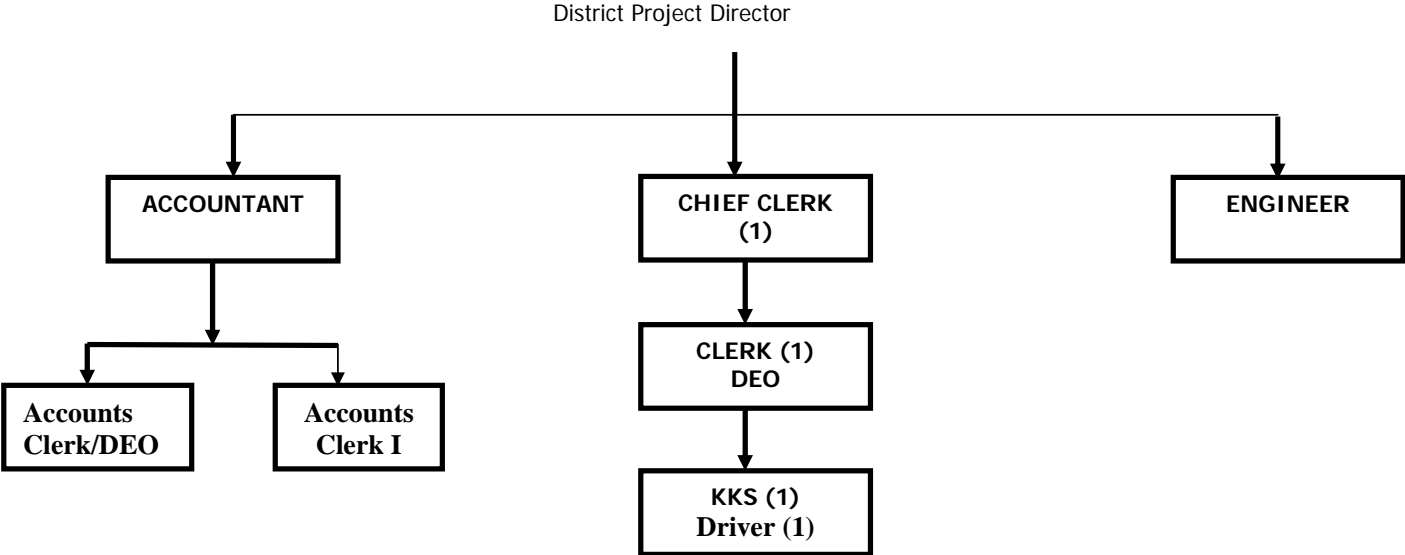
**PROJECT OFFICE
ORGANIZATION CHART**

Annexure 1-1

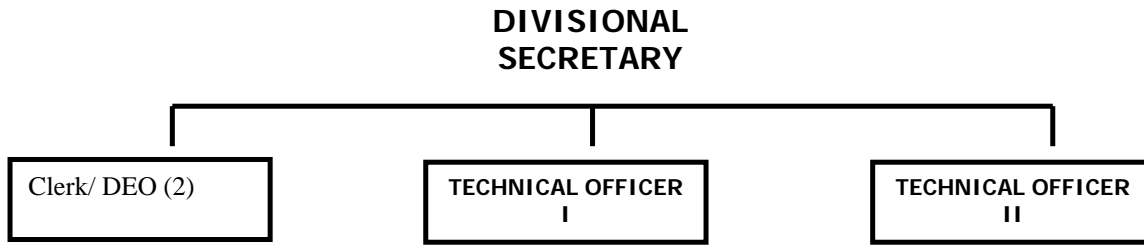
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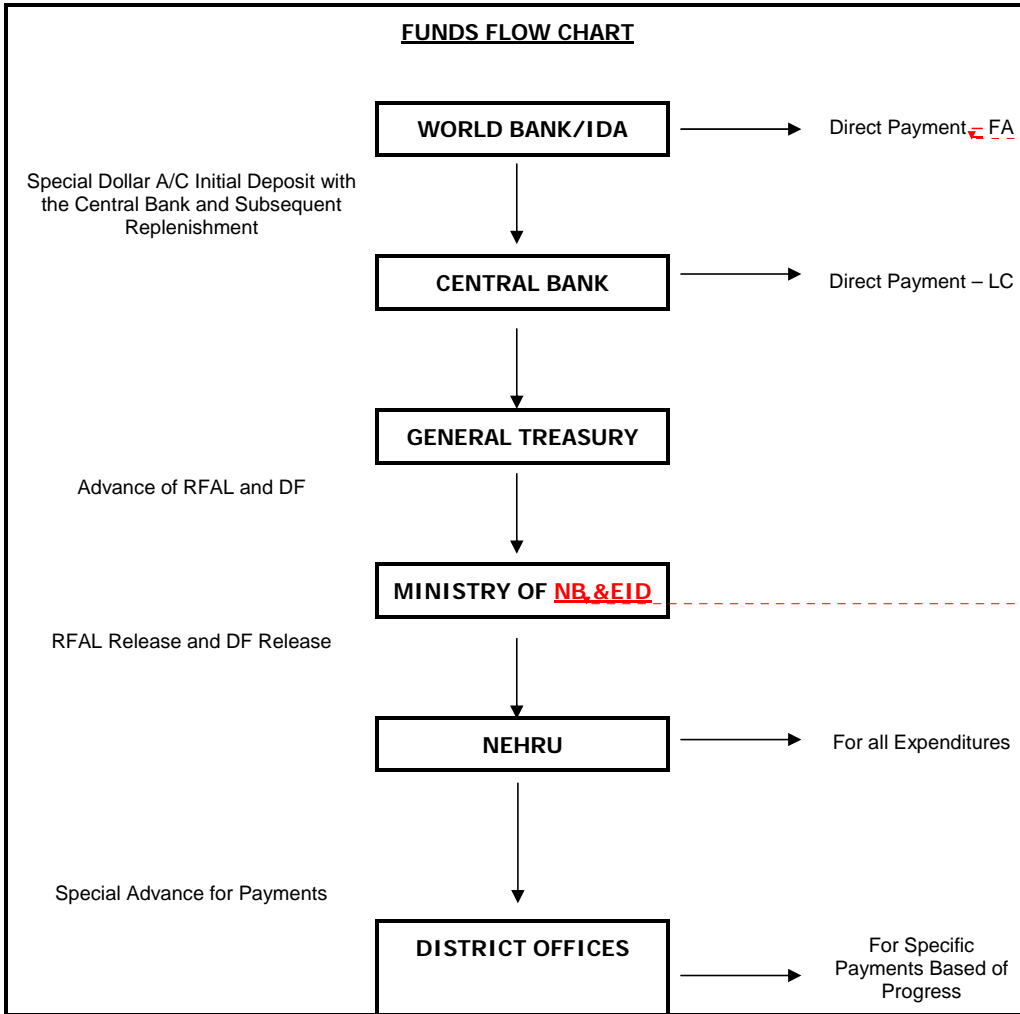
DISTRICT PROJECT OFFICE ORGANIZATION CHART

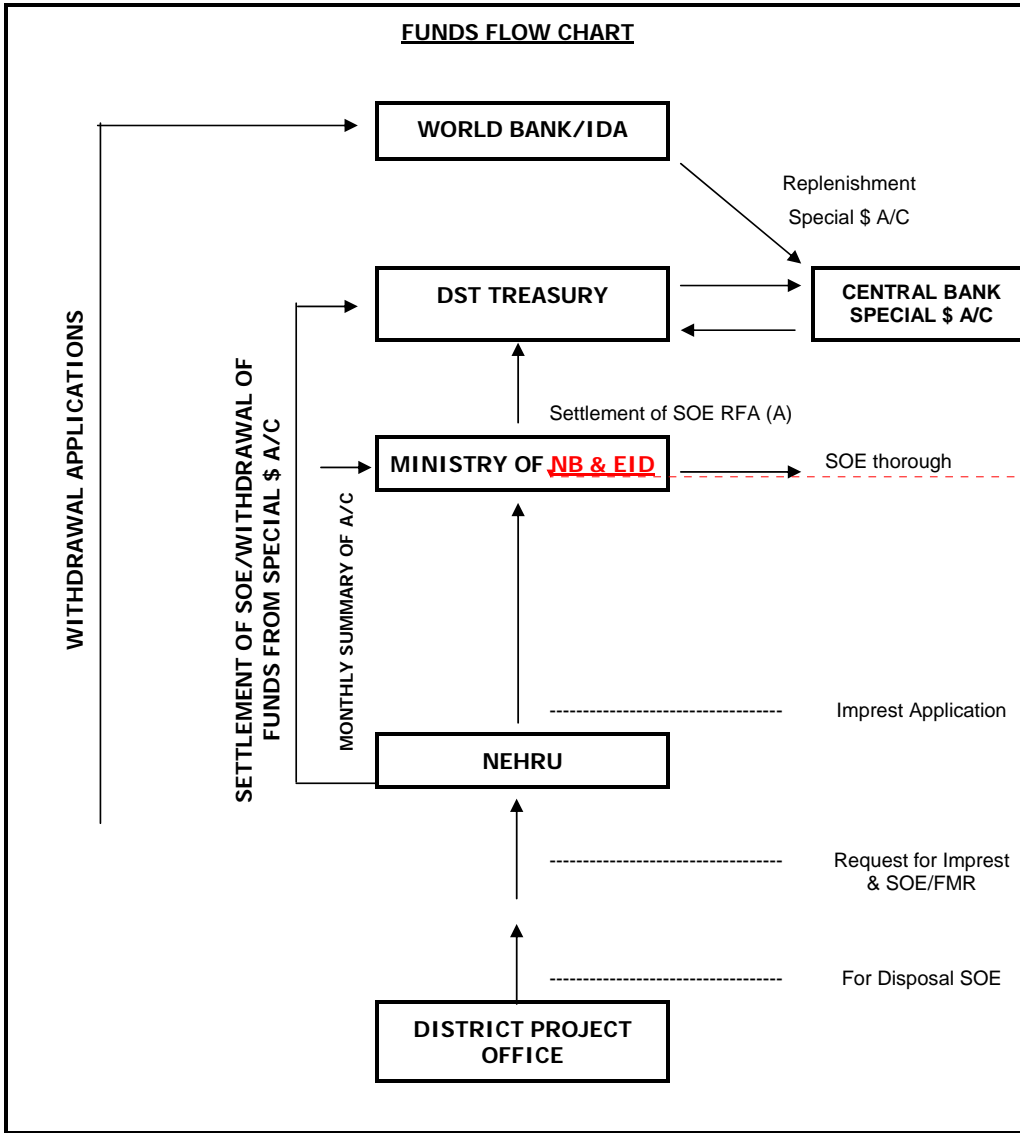


**DIVISIONAL PROJECT IMPLEMENTATION AND MONITORING
UNIT**



- Assisted by
- a - Divisional Environmental Officer
 - b - Social Service Officer





Implementing Agencies

The following Provincial Ministry and Departments shall open separate bank account for the smooth operation of the programme.

Department of Building

Department of Irrigation

Department of Local Government for Capacity Building Civil Works

Department of Local Government for Water Supply Civil Works

The implementing department will release sub imprest to its district office for the exact amount needed to pay any completed voucher(s). As such there is no need to open bank accounts for the district office. This is very essential in order to reduce procedural delay multiplicity of reporting and tied up liquid funds.

However when the payments are completed statement of expenditure shall be sent together with the paid document to the respective Head office, as it is a requirement under the FMR of IDA.