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INTERNATIONAL LABOUR OFFICE

HAND BOOK
OF
SOCIAL INSURANCE
ADMINISTRATION

Volume III

ACCOUNTING AND FINANCIAL CONTROL



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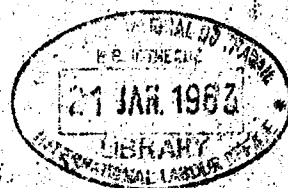
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VOLUME III

ACCOUNTING AND FINANCIAL CONTROL

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HANDBOOK OF SOCIAL INSURANCE ADMINISTRATION

Volume III. ACCOUNTING AND FINANCIAL CONTROL

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PREFACE

1. This study is intended to link up with the Handbook of Social Insurance Administration, Vol. I Methods and Procedures, and Vol. II Draft Posters, Leaflets and Forms already completed¹, which provides a model plan for the administration of a scheme of social insurance such as might be used by a country embarking on social insurance for the first time.

2. In the Handbook on Methods and Procedures the purposes and functions of a Finance and Accounts Division of the Social Insurance Institution were described briefly and it was stated that the procedures relating to accounting, financial matters and the collection of statistics would be dealt with more fully later. The present study covers the requirements relating to accounting and financial matters, leaving the collection and tabulation of statistics to be dealt with in a third study.

3. It is hoped that this study will provide guidance regarding the financial and accounting organisation and the system of accounts required for a scheme of social insurance such as that outlined in the Handbook on Methods and Procedures, and that it will be of assistance to those who are engaged in the task of bringing a scheme of social insurance into operation, as well as those who may contemplate modifying or extending an existing scheme, or reorganising the accounting arrangements of an existing scheme.

4. To enable concrete suggestions to be put forward in some detail with the aim of covering those purposes, the same basic assumptions are made as in the Handbook on Methods and Procedures; these are explained in section 2 of Part I of that Handbook. They are, very briefly, that the scheme will require compulsory contributions from employers and, or on behalf of, employed persons, and will provide the following benefits initially:

¹ Referred to in the present study as the "Handbook on Methods and Procedures".

- (i) medical care;
- (ii) sickness cash benefit;
- (iii) maternity cash benefit;
- (iv) employment injury benefits; and
- (v) funeral grant.

5. The scheme is such that it can later be extended to provide "long-term" benefits such as invalidity pension, old-age pension and survivors' pensions, but the accounting arrangements to be described will be applicable to the initial stage. They will, however, be easily adaptable if and when the scheme is thus extended.

6. In order to form a proper foundation for the administrative procedures suggested in the Handbook on Methods and Procedures, drafts are included of a series of Regulations in which are embodied the details of the model scheme on which the arrangements have been based. The accounting procedures will suit the kind of scheme covered by these Regulations, but it is hoped nevertheless that, as in the case of the administrative arrangements described in the Handbook on Methods and Procedures the accounting procedures will be capable of adaptation to suit variations in the details of particular schemes. Circumstances vary from country to country and no two schemes are alike in all respects. To make the accounting arrangements as adaptable as possible the opportunity has therefore been taken to introduce alternative accounting procedures, where these are likely to be useful, in order to cover different provisions of individual schemes and different administrative arrangements.

7. Provision has thus been made for schemes which require separate accounts to be kept for each of a number of different branches of insurance (provision of medical care, sickness and maternity cash benefits, industrial injuries cash benefits, etc.). The collection of contributions both by the method of affixing social insurance stamps to cards and the method of receiving payment by cash or cheque based on schedules of employed persons showing the amount due in respect of each (the "pay-roll" method) has also been covered. Some schemes may be administered centrally while in others administration may

be decentralised to regional or local offices, and accounting arrangements will be suggested which can be applied to both types of scheme. In connection with the presentation of the accounts of any scheme of social insurance there are certain different methods of accounting which may be followed - different methods, for example, of showing in the final accounts for the year contributions which have become due from employers but have not been paid - and these different methods are dealt with and the corresponding alternative procedures described.

8. The circumstances in which one or the other of these alternative procedures may be desirable, whether as a result of the provisions of particular schemes or otherwise, are discussed in a series of Notes contained in Part IV of this study; and when there are more ways than one of dealing with particular accounting problems the advantages and disadvantages of each are considered and reasons are given for preferring one method rather than another. In reading Parts II and III, therefore, reference should be made, where indicated, to Part IV for the reasons why such and such a provision is included in the accounting arrangements or why such and such a procedure is suggested or why a particular form of account is provided for. Part IV, in fact, takes the place of what otherwise would be a number of rather lengthy footnotes related to the text of Parts II and III, and should be referred to and used as such.

9 In general the procedures to be described will be suitable for schemes of average size. In the case of some small schemes it may be impracticable to provide sufficient staff to enable different functions to be performed by separate officers in accordance with the division of duties suggested, and where this is the case the plan of accounting and financial controls provided should be adapted by combining functions and not by omitting any of them. In no case should the arrangements suggested in this study be invoked as justification for employing staff otherwise than on full-time duties. It should be possible by combining certain duties to arrange for all the staff to be fully employed and at the same time to retain the essential features of the checks and controls provided for.

10. As regards large schemes, the principal modifications that may be desirable in the accounting arrangements will relate to the use of accounting machines, including

perhaps the installation of punched-card machines to deal with such operations as the collection and recording of insurance contributions, particularly when these are collected by the "pay-roll" method. One of the Notes in Part IV (see paragraph 8 above) describes briefly the methods and techniques of machine accounting, suggests how these could most usefully be applied in connection with social insurance schemes, and discusses the considerations to be borne in mind in introducing machine accounting.

11. The general plan of the study can be summarised as follows:

The Preface contains an introduction and general observations.

Part I discusses the main purposes which an accounting system should serve.

Part II outlines an accounting plan designed to serve these purposes, and describes the procedures to be followed in the day-to-day work relating to payments, receipts and book-keeping - the safeguards to be introduced against error or fraud, the financial controls to be applied, and other matters that fall within the duties of the accounting and internal audit staff

Part III contains an Accounting Code - that is, a list of the accounts to be kept, with notes regarding the meaning and purpose of the various accounts and the book-keeping entries normally required; the preparation of monthly and annual accounts is also covered.

Part IV, as explained in paragraph 8, consists of a series of general notes explaining the reasons for particular procedures suggested, and the circumstances in which alternative procedures may be desirable. Finally,

Part V contains draft rulings for the accounts suggested, and draft forms suitable for use by the Finance and Accounts Division.

PART I

Main Purposes Which An Accounting System Should Serve

Information

101. The first and most obvious purpose which an accounting system should serve is to provide information - to "account", in fact. The Social Insurance Institution (which will be referred to henceforward as the "Institution") collects income in the form of insurance contributions, income from investments, perhaps a contribution from the Government, and it must "account" for this income by showing clearly what has happened to it. The accounts should therefore give precise and detailed information on the amounts and sources of income and the amounts and objects of expenditure, suitably classified. They should also give details of the investments or other assets which have been acquired, and show any changes which may have taken place in the form of these investments or assets during the period covered by the accounts. Finally, the accounts should show the balance of assets over liabilities at the end of the period and where and in what form the assets exist.

102. The information provided by the accounts should be made available first of all to the administrators responsible for the proper functioning of the Social Insurance scheme; that is to say, the Social Insurance Board, the Director-General and the principal officials of the Institution (who will collectively be referred to as "the Management"). Others to whom the accounts should be made available include the responsible Minister and the government, the employers, insured persons and the public generally, actuaries and economists, and international organisations.

103. The information need not, however, be given in quite the same form to all of these. The Management will require information in considerable detail, including, for example, statements of cost analysis supplementing the main accounts. The purposes of the other interested parties may be served by the presentation of less detailed statements, which, while providing all relevant information summarised under grouped headings, do so in such a way as to give a bird's eye view, so that the essential features can be grasped by studying a presentation of the accounts covering one page or two pages at the most.

Accounts as a "Tool of Management"

104. Since the Management require information in much more detail than the other groups mentioned in the previous paragraph, the accounting system should be organised primarily to meet the requirements of the Management. The information supplied by the Finance and Accounts Division to the Management should, indeed, be such as will enable the latter to treat such information as one of their most important "tools of management", and the extent to which they use the information for management purposes will form an important index by which to measure the success of the accounting organisation.

Accounts must be presented without delay

105. From this point of view perhaps the most important factor which contributes to the usefulness to the administrators of the information supplied is the speed with which it can be provided. It is of the greatest importance that the accounts and statements should be provided quickly, before they have lost their critical value. The best of accounts and statements rapidly lose their topicality and as soon as that happens they become virtually useless for management purposes. It is therefore essential that the work of the Finance and Accounts Division and that of the other Divisions which supply the material to be recorded in the accounts should be so organised and planned that there is a steady flow leading without delays and interruptions to the production of the accounts and statements within a short time - which should be measured in days rather than weeks - after the end of the period to which they relate.

106. Statements of account should be presented monthly showing the progress of income and expenditure to date. The monthly accounts will be interim statements, pending the presentation, as soon as possible after the end of the year, of the "final" accounts for the year, which will incorporate adjustments such as transfers to specific reserves or provision for depreciation of fixed assets, which, conventionally, are made once a year.

107. The accounts as a whole should be balanced at the end of every month and the interim monthly accounts should be based on these monthly balances and presented not later than in the first week of the following month. These

monthly accounts, in addition to disclosing the out-turn to date of the budget estimates, will be designed to disclose seasonal and other fluctuations in such items as claims for benefits or collection of contributions, or any other variations from normal to which attention should be drawn.

Budgetary Control

108. The Social Insurance Board will exercise over-all financial control of the social insurance scheme principally by means of the annual budget. The accounting system must therefore provide for the preparation of the necessary estimates for budget purposes in good time to enable the budget to be considered by the Board before the beginning of the year to which it relates. The accounts kept must be arranged under the precise heads of income and expenditure which have been used in the budget as approved by the Board, so that comparison can readily be made at any time between the approved budget figure for any head and the actual income or expenditure to date under that head. The day-to-day budgetary control will be exercised on behalf of the Board by the internal auditor, who will report to the Board as soon as any probability emerges of excess of expenditure or shortage of income under any head.

Statistics

109. Accounts are themselves statistics, and by suitable subdivision can be arranged to provide much of the data required by the Statistics Section. There is wide scope for fruitful collaboration between the Finance and Accounts Division and the Statistics Section in the provision of statistical material essential to the Management and the technicians of the Social Insurance scheme - actuaries, doctors and economists - and the provision of such statistical material is one of the more important of the purposes which the accounting system should serve.

110. Thus the accounts should provide the expenditure data required for the preparation of statements of cost analysis. These statements could include such items as the cost per patient-day in different hospitals and the average for all the hospitals, the cost per out-patient treated at different dispensaries and the average for all the dispensaries, the average cost of each prescription

dispensed, the cost of administration of the different regional or local offices (in the case of schemes where administration is decentralised), and other types of costing which the management may ask for. The maximum usefulness of these statements can probably be obtained by preparing them quarterly and also submitting, at the end of the year (as should be done in any case) statements covering the whole of the year.

Control of Stores and Supplies, Including Pharmaceutical Products

111. The accounting system should provide for efficient control of stores, medicines and supplies of all kinds. This involves devising a system of code numbers for each separate item and each separate pharmaceutical product and maintaining stock records for each item, in quantities, weight, volume, etc., as appropriate. If practicable, these stock records would be based on entry notes and delivery notes or other documents vouching issues. The system of control would be completed by physical stocktakings, taken independently of the store-keeper, which should be performed at least once a year. The quantities listed in the stocktaking reports would be compared with the quantities shown by the stock records for the purpose of checking against theft or misuse of the stores, and, where necessary, adjusting the records (under proper authority) to the quantities ascertained to be physically in existence.

Check of Correctness and Regularity

112. Another important purpose which the accounting system should serve is to provide for a check of the financial operations, not limited to their arithmetical correctness, but covering also their admissibility under the Law and Regulations. This will require the establishment of a special service of internal audit, under an Internal Auditor who would be a senior officer of high qualifications and experience, possessing wide powers of investigation, and having authority to report direct to the Board.

113. An internal audit service of this nature would have several functions. It would act as a preventive audit by examining and approving every payment voucher before payment took place; it would test awards of cash

benefit for regularity and conformity with the Law and the Benefit Regulations; it would check to see that all the income due to the Institution was either received and brought to account or written off as irrecoverable under proper authority; it would, as indicated in paragraph 108 above, provide the means by which the Board would exercise budgetary control.

114. There is another function which it would be the duty of the internal audit to carry out. The effectiveness of procedures designed to apply accounting controls or to act as safeguards against error or fraud depends, it has to be recognised, on the continuous observance and intelligent carrying out of the procedures. It is therefore essential, when instructions are issued for any such procedures to be put into operation (or, indeed, when any other instructions are issued) that at the same time machinery should be created, if it does not already exist, to ensure that the instructions are obeyed. The internal audit service provides this machinery. Not the least important of its functions, therefore, would be to keep under review the operation of the procedures relating to the application of accounting controls and those designed to act as safeguards against error or fraud, and to see that they continued to be observed and were being properly applied.

115. The internal auditor would at the same time, however, be expected to look with a critical eye at these procedures and controls in order to bring to the notice of the management any weakness of organisation or wasteful administration he might find, and would be encouraged to propose any amendments of procedure by which such weaknesses might be remedied and the efficiency of the financial administration increased.

PART II

Plan of Accounting and Financial Procedures

Section 1 - Foreword

(See Notes 1, 2, 3, 9 and 17 of Part IV)

201. This Part is intended to give general guidance regarding the formation of an accounting plan and the establishment of financial procedures designed to serve the purposes outlined in Part I and suitable for the kind of social insurance scheme referred to in the Preface.

202. It is recognised, however, that social insurance schemes, especially those being embarked upon for the first time, will vary greatly in scope, in the circumstances in which they are launched, in the social and economic conditions prevailing in the particular country and in the resources of administrative and clerical assistance from which the Social Insurance Institution can be staffed. The plan of accounting and the financial procedures are drafted with these considerations in mind. The plan contains a number of fundamental features that must be regarded as obligatory for any type of scheme that is to be administered on sound and businesslike lines and with due regard to the need to safeguard the funds entrusted to the administration. Otherwise the plan will, it is hoped, be sufficiently flexible to be able to be adapted to meet the needs of schemes containing variations from the kind of scheme referred to in the Preface, or schemes administered in other ways.

203. Whenever possible, therefore, the accounting plan and financial procedures will cover alternative methods of administration or will indicate the variations that would be required to deal with schemes containing features other than those postulated in the model scheme referred to.

204. The principal features of the model scheme, in so far as they concern the accounting arrangements to be described, are as follows. There will be a Social Insurance Board to act as the Governing Body under the general supervision of a Minister, and a Director-General who will be responsible to the Board for the work of the Social Insurance Institution which will administer the scheme.

The Institution will be organised in a number of Divisions, one of which will be the Finance and Accounts Division. It is also assumed that there will be a Central Office for general direction of the scheme and one or more regional or local offices at which claims for cash benefit will be received, assessed and paid, and insurance stamps sold to employers, or insurance contributions paid by employers if the "pay-roll" method is in use.

205. A further assumption is that medical care, where in-patient treatment is required, will be provided in one or more hospitals, that out-patient treatment will be given in one or more dispensaries, and that there will be a pharmacy where medicines are dispensed. (If, however, in a particular scheme medical care is provided on an agency basis by means of arrangements made with public or private hospitals, dispensaries, medical practitioners, etc. the accounting plan will be readily adaptable to deal with the payments for these agency services.)

206. As regards the financing of the scheme, it is assumed that there will be a joint insurance contribution, part payable by the employer and part payable by, or on behalf of, the employee, and that the employer will be responsible for paying the joint contribution.

207. At the time when the financing of the scheme was being planned estimates may have been made, based on the best data available at the time, of the probable annual cost of operating different branches of the scheme, e.g. the provision of medical care, cash benefits for sickness and maternity, cash benefits arising out of employment injuries - possibly administration as a separate item - and the amount of the joint contribution may have been related to the aggregate of these estimates. Thus although a single contribution is payable in respect of each insured person it would be possible to regard the contribution as divisible between these different branches and, possibly, administration. For purposes of control where this is the case and to test the out-turn of these initial estimates the accounting plan will provide that the contribution income will be divided in proportion to the initial estimates of cost and that the assigned portion will be allocated to separate Income and Expenditure Accounts for each of the branches and for administration. In this connection the Law which establishes the social insurance scheme may, indeed, itself provide for separate accounts to be kept for each benefit group or branch of insurance.

208. Other provisions relating to accounting may be contained in the Law, such as provision that the accounts must be audited by an independent auditor before formal submission ("external" audit), provisions regarding investment, the powers and responsibilities of the Social Insurance Board in the field of accounting, etc.

209. In so far as these and other fundamental provisions relating to accounting and financial matters are not covered by the Law, or not fully covered, they will be provided for by Regulation - perhaps the Law will empower the Board to make Financial and Accounting Regulations. In any event a draft of the kind of regulations that might be suitable is contained in Section 8 of this Part (paragraphs 572-606 and Appendix).

210. As explained in paragraph 8, a number of Notes have been relegated to Part IV in order to avoid interrupting the text of Parts II and III. They should, however, be read in conjunction with Parts II and III wherever references are given to them.

211. Reference is made in paragraph 202 to certain fundamental features of the accounting arrangements that must be regarded as obligatory for any type of scheme irrespective of variations from the kind of model scheme assumed, or any special provisions that the scheme may contain. These include the following:

- (i) the accounts must be kept on the system of double-entry book-keeping - see Note 1 of Part IV;
- (ii) there must be budgetary control by the Board - see Note 2 of Part IV;
- (iii) there must be a system of authorisation of payments by an officer duly empowered for the purpose and an independent check of the payments - preferably a pre-payment check - see Note 3 of Part IV;
- (iv) the cashier and the book-keeper must be strictly independent of each other so that each acts as a check on the other - see Note 9 of Part IV;
- (v) there must be proper control of stores by stock records and annual stocktakings;
- (vi) a system of internal credit should be established to ensure, among other things, that the requirements listed above are continuously and properly applied - see Note 17 of Part IV.

PART II

Section 2 - Plan of Accounting

(See Notes 4, 5, 6, 7 and 8 of Part IV)

212. The plan of accounting to be outlined has as its main object the production of an Income and Expenditure Account, a Capital Expenditure Account and a Balance Sheet for the Institution as a whole; and, if necessary, separate Income and Expenditure accounts, Capital Expenditure accounts and Balance Sheets for each branch of insurance, "administration" being treated for this purpose as a branch. These will be produced monthly for the information of the Board and annually for submission, through the Board, to the responsible Minister for his information and for subsequent publication. The annual accounts will be supplemented by a financial report for the year and by a number of subsidiary statements, including statements of cost-analysis produced by the actuarial service of the Institution, if there is one, or, if not, by the Accounts Section and the Statistics Section in collaboration. Some of these subsidiary statements and costing statements might also be produced and submitted to the Board in the course of the year, perhaps quarterly

213 Accounting will be based on the concept of a Social Insurance Fund, into which all income will be deemed to be paid and out of which all payments will be deemed to be made - or, if required, separate funds for each of the branches of insurance. Individual accounts such as Contributions Account, or the Benefit Accounts, or Salaries and Wages Account, etc. will thus be regarded as accounts subsidiary to the Social Insurance Fund Account, or the appropriate Branch Fund Account, and at the end of a financial period, whether a month or a year, the amount of the Fund, as shown in the Balance Sheet, will represent the difference, as at the date of the Balance Sheet, between the total value of the assets and the total amount of the liabilities of the Institution or Branch.

214. The final accounts for the year and the Balance Sheet as at the end of the year will differ from the monthly accounts and Balance Sheets in that the annual accounts will incorporate certain adjustments which, conventionally, are made once a year. These adjustments, in respect, for example, of depreciation and transfers to reserves, are, in accordance with the usual accounting practice, made at the end of a year before presenting the final accounts for the year.

215. Depreciation represents the proportion of the value of the fixed assets which has been "used up" during the year and it is necessary to include this item among the expenses of the year in order to obtain a true statement of the real cost of the operations of the year. An explanation of depreciation will be found in Note 4 of Part IV.

216. It will usually be the case that the plan of financing the social insurance scheme will require certain reserves to be created - for example, a Contingencies Reserve to which recourse can be had, if the need arises, to meet any exceptional increase in the cost of benefits due to epidemics, abnormally severe weather, etc., or to make good any exceptional falling off in income due to greatly increased unemployment from any cause. The Financial and Accounting Regulations will prescribe the basis on which a Contingencies Reserve and any other reserves are to be established, and it will be necessary to set aside, out of any surplus of income over expenditure at the end of the year, the amounts required and to invest these sums. The appropriate accounting transfers to the Reserve accounts will be made before the final accounts for the year are prepared. Note 5 of Part IV deals more fully with reserves and investments.

217. The accounting plan will be based, in principle, on income being shown on the accrual basis, and expenditure being charged against the accounting period in which it becomes due. Thus income "earned" will be credited whether received or not, and expenditure which has been authorised for payment will be shown as charged whether or not it has actually been paid. (The income credited but not received will, of course, be shown in the Balance Sheet as an asset and the expenditure due but not paid will be shown on the other side of the Balance Sheet as a liability.)

218. As an important exception to this general rule however, income from insurance contributions will be credited on a purely cash basis - that is, contribution income will be credited only when it has actually been received in cash by the Institution (or by any agent of the Institution which sells insurance stamps or receives contributions on its behalf). At the same time the accounts will give, in a footnote, full information regarding contribution income which has become due but has not been paid. An explanation of the reasons for making an exception in the case of income from contributions is contained in Note 6 of Part IV, and a note on the general principle of accounting for income when earned and expenditure when it becomes due, and the practical application of this general principle, is given in Note 7 of Part IV.

219. If the Social Insurance Law does not determine the financial year to be observed, the Financial and Accounting Regulations should do so. Some of the considerations to be taken into account are discussed in Note 8 of Part IV. Normally the calendar year, i.e. that ending on 31 December, would be adopted, but, as explained in Note 8, there may be good reasons for adopting some other financial year.

PART II

Section 3 - Payments, Receipts and Accounting Transfers

(See Note 3 of Part IV - Authorisation and check of payments and Note 9 of Part IV - Source from which book-keeping entries are made)

Chapter 1 - Introduction

220. This section and the following sections of this Part, read in conjunction with the relevant Notes in Part IV, are intended to provide the material on which Staff Instructions relating to accounting and financial procedures can be drafted to suit the circumstances and conditions of individual schemes.

221. It is proposed to devote this section to the arrangements to be made for authorising, checking, making and recording payments; for receiving, approving and recording receipts; and for authorising and recording accounting transfers.

222 One of the essentials of good organisation is that the powers, duties and responsibilities of all members of the staff must be defined with precision and that every officer must know exactly what his individual powers, duties and responsibilities are; this is a rule of general application but it applies with special force to staff who are concerned in any way with financial transactions.

223. These powers, duties and responsibilities should be allocated, by means of division of labour, in such a way that different members of the staff act as a check on one another, with a view to ensuring that errors are at once detected, and that fraud cannot be perpetrated without the collusion of at least two officers.

224. These general principles can be applied to the procedure for dealing with payments, receipts and accounting transfers by the establishment of the arrangements with which this section deals.

225. As laid down in Article 9 of the draft Financial and Accounting Regulations (paragraph 580), a list should be drawn up - either as part of a "Staff and Duties" list or otherwise - of the officers empowered to authorise payments or accounting transfers, and to sign cheques. Such a list, which should be approved by the Board, will specify the limits, if any, in relation to the amount involved or the subject of the transaction, within which the officers named are authorised to exercise the particular function.

226. The allocation of these duties and responsibilities will depend on the size and scope of the scheme, the amount of decentralisation of the administration, the staff available, the location of the offices at which such staff are stationed, and other practical considerations. In general it is not usually considered advisable to authorise cashiers to sign cheques; where this is permitted a second signature on the cheque would as a rule be required. Some schemes, indeed, require two signatures on cheques in any case. If responsible senior staff are available in sufficient numbers to allow for periods of leave, sickness, or absence from other causes, one signature on cheques is probably sufficient, given the system of authorisation by payment voucher, and pre-payment check, to be explained below.

227. There should be machinery to ensure that the procedures described in this section are continuously followed, and that the rules laid down are consistently and properly obeyed. An internal audit service - see Section 7 of this Part (paragraphs 508-564) - is the best means of providing this machinery.

Chapter 2 - Payments

(See Note 3 of Part IV - Authorisation and check of payments)

228. Payments will be made by cheque unless the amount is small enough to be paid out of petty cash. (In paragraph 944, it is suggested that amounts below the local equivalent of, say, ten U.S.A. dollars might be paid from petty cash.) For the convenience of certain payees, however, it may be desirable to include in the arrangements provision for payment of larger amounts in cash if a special request for payment in cash is made.

229. Except for payments of cash benefits, for which a special procedure is described below, and payments from petty cash, all payments, whether to be made by cheque or in cash, will be authorised on a Payment Voucher (Form FN 1), which will be used as an action sheet for the payment.

230. Payment vouchers will be supplied in pads, serially numbered and interleaved with blue and pink sheets to serve as copies, and every payment voucher will be completed in triplicate by means of carbon paper.

231. An alternative to the use of carbon paper is to use special manifolding stationery, impregnated on the back with carbon or some similar chemical in such a way that a copy can be obtained without the inconvenience of inserting a sheet of carbon paper. An additional advantage is that if it is not desired to take a copy of the whole of the writing or typescript on the top document this can be arranged by omitting the impregnation from the back of the parts which are not to be duplicated. Future references in this study to the use of carbon paper to obtain copies of documents should be deemed to include the use of such manifolding stationery.

232. If the payment to be made is based on an invoice, demand, or other form of request for payment, the document in question will be passed by the Registry to the section responsible for the service to which the payment relates.

233. Where the payment is for goods supplied, details of which are shown on an invoice, bill or similar document, the invoice, etc. will be referred to the section responsible for the receipt and custody of the goods. It will be the

duty of the storekeeper to receive the goods, check that they are correct in quantity and that they have been received in good condition, and complete an Entry Note (Form FN5) acknowledging receipt of the goods.. Entry notes will refer to the goods received, by quantity (or weight, volume, etc. as appropriate) and not by price or value.

234. Entry notes will be supplied in pads, serially numbered and interleaved with blue and pink sheets to serve as copies. Each entry note will be completed in triplicate by means of carbon paper (but see paragraph 231), the three copies being disposed of as follows:

- the top copy (white) will be sent to the supplier as an acknowledgement of receipt;
- the second copy (blue) will be attached to the payment voucher authorising payment for the goods (or retained until a payment voucher is issued);
- the third copy (pink) will be retained by the storekeeper as a voucher to support the entry which the storekeeper will have made in either the Inventory Book or the Stock Record (see paragraphs 467 to 470).

The storekeeper will note on the blue and pink copies of the entry note a reference to the book or record in which the goods have been taken on charge (see paragraph 470).

235. When the storekeeper has attached the blue copy of the relevant entry note to the payment voucher he will complete Part II of the payment voucher (in triplicate) and return it to the section from which he received it, where it will be dealt with by an officer empowered to authorise the payment (see paragraph 225).

236. The authorising officer will ensure that Part II has been properly completed by the storekeeper and will then examine the invoice with the contract or order for the supply of the goods, to check that the prices charged are correct. He will check any calculations on the invoice, will satisfy himself that provision for the expenditure has been made in the budget for the year as approved by the Board, and that such provision has not been exhausted. He will then complete Part I of the payment voucher by inserting the code number of the account to be debited, and if fully satisfied that the payment is in order in all respects will authorise it by signing the certificate in Part III of the payment voucher.

237. If the payment to be made is not for goods supplied, the authorising officer will delete Part II of the payment voucher as not applicable. He will, however, attach to the payment voucher any document that may have been received from the payee showing the amount payable. He will then complete Parts I and III of the payment voucher as indicated in the previous paragraph.

238. When the authorising officer has completed and signed Part III (in triplicate) he will send the three copies of the payment voucher to the internal auditor for the pre-payment check.

239. The internal auditor will examine whether Parts I to III of the payment voucher have been properly completed, and will check the admissibility and correctness of the payment from all points of view. If he is satisfied that the payment is in order he will sign the certificate in Part IV of the form and dispose of the three copies as follows:

- the top copy (white) and the second copy (blue) will be sent to the cashier for payment to be made;
- the third copy (pink) will be sent to the book-keeper as the posting medium for the charge to the expenditure account noted on the voucher.

240. The book-keeper should be instructed not to accept for posting any payment voucher on which the internal auditor has not signed the certificate in Part IV of the form.

241. The cashier will pay by cheque except in the cases mentioned in paragraph 228 above. The cheque will be signed by an officer duly empowered for the purpose (see paragraph 225). When a cheque is presented for signature it will, of course, be accompanied by the payment voucher, Parts I to IV of which have been duly completed.

242. The cashier will then despatch the cheque and record the payment in the "Bank" column of his Cash Book. He will note in Part V of the payment voucher a reference to the entry in the cash book (number of entry and folio) and the date and number of the cheque used. He will then sign Part V, pass the second (blue) copy of the payment voucher to the book-keeper to supply particulars of the payment, and retain the top (white) copy as his voucher for the entry in the cash book.

243. Where payment is made in cash, the cashier will obtain the payee's signature (or thumb-print) on Part VI of the payment voucher as an acknowledgement of receipt. He will enter the payment in the "Cash" column of his cash book and note in Part VI of the payment voucher a reference to the entry in the cash book (date, number of entry and folio), sign Part VI and dispose of the blue and white copies of the payment voucher as in the case of a payment by cheque.

Payments of Cash Benefits

(See Note 3 of Part IV - paragraphs 936-943)

244. A procedure such as that described in the Handbook on Methods and Procedures or one based on similar principles should be followed in connection with the determination of amounts due in respect of cash benefits. In accordance with this procedure the amounts due are recorded on "action sheets" (Form S9 for sickness cash benefit and corresponding forms for the other cash benefits) and transcribed to payment schedules (Forms S14, E7, or E11), which are sent to the cashier, separate schedules being used for each type of benefit.

245. If the staff resources permit and it is otherwise practicable, the best arrangement would be for the check of the amounts determined on the forms S9, etc. to be performed by a member or members of the internal audit service stationed in the awarding section for the purpose. In that event the internal auditor would sign or initial the space for "checked by" on forms S9 etc.

246. He would also check the "carry forwards" to the payment schedules (Forms S14 etc.) which would be treated as payment vouchers for payments of cash benefits, and could be adapted to contain a short certificate (see paragraph 248 below) corresponding to the certificate in Part IV of the ordinary payment voucher (FN1).

247. If, on the other hand, it is found that the most practicable arrangement is to follow the plan outlined in the Handbook on Methods and Procedures whereby the check of the awards would be performed by a second member of the awarding section, the internal auditor should nevertheless still see and sign the payment schedules (both top and duplicate copy) before they are sent to the cashier. (For the action to be taken by the internal auditor see paragraphs 531-534)

248. The payment schedules, in duplicate, would therefore be passed by the awarding section to the internal audit. The forms would be adapted to include the following short certificate to be signed by the internal auditor -

"Approved for payment

Date Signature"

249. As provided in the procedure outlined in the Handbook, the payment schedules will be kept under review by the cashier, and items that have not been paid within 14 days will be transferred to a Suspense Schedule (Form S14A completed in duplicate), the original entries on Form S14, etc. being cancelled and the total being reduced accordingly. When a suspense schedule is full it should be referred to the internal auditor together with the schedules from which the outstanding items have been transferred, and the internal auditor, after examining the entries on the suspense schedule and the adjustment of the totals of the original schedules, will sign the certificate on the suspense schedule and return both copies to the cashier for action.

250. Completed payment schedules (including suspense schedules) - that is, schedules on which all the items have been either paid or transferred to a suspense schedule or cancelled as "Time expired" - will be disposed of by the cashier as follows:

- the top copy will be signed and retained by the cashier as his voucher for the payments made;
- the duplicate copy will be signed by the cashier and passed to the Book-keeping Section.

251. The Staff Instructions issued in connection with these operations should include a directive that the internal auditor must not in any circumstances hold up action on payment schedules but must pass them to the cashier within, say, six hours after receipt.

252. The Staff Instructions should also provide that the cashier must on no account accept a payment schedule unless the certificate of the internal auditor has been properly completed.

253. Payments of cash benefits will be made by the cashier - in cash - to the payee or to a representative of the payee duly authorised to receive payment on his behalf (see paragraph 687 of the Handbook on Methods and Procedures). The cashier will obtain a receipt from the payee or his representative in the column of the payment schedule provided for the purpose.

254. The cashier will record the payment on a Daily Record of Payments of Cash Benefit (Form FN7), on which he will enter the type of payment schedule (S14, E7 or E11), the serial number of the schedule and number of the entry. He will enter the amount paid in the "Amount Paid" column and again in the appropriate analysis column. Forms FN7 will be supplied in pads, interleaved with blue sheets to serve as copies, and the cashier will make his entries on the form in duplicate by means of carbon paper. When a sheet is full the cashier will add up the "Amount Paid" column and the analysis columns, and if the cross-total of the analysis columns agrees with the total of the "Amount Paid" column he will carry forward the totals of the columns to a fresh sheet. He will number consecutively the Daily Record sheets which he uses for any particular day.

255. At the end of public business each day (which should be earlier than the time at which the staff leave), the cashier will agree the cross-total of the analysis columns of the last sheet with the total of the "Amount Paid" column, and will insert this total in the "Cash" column of his cash book on the payments side as the total payments of cash benefits for the day. He will then balance his cash to satisfy himself that after taking into account his total receipts and disbursements for the day the balance of cash with which he is left is correct. (Any shortage or surplus of cash must be immediately reported to his superior officer who will arrange for the amount to be transferred to Losses Suspense Account or Cash Surplus Suspense Account, as the case may be.) The cashier will then sign both copies of the last page for the day of Forms FN7 and pass them to the internal auditor.

256. The internal auditor will check the entries and additions on the Forms FN7 and will verify the entry of the total of the day's disbursements in the cash book. If he is satisfied that the Forms FN7 for the day are in order in all respects he will then complete his certificate on the last page, pass the top (white) copy back to the cashier for retention and the blue copy to the Book-keeping Section.

257. As explained in paragraphs 1000 and onwards of Note 7 of Part IV, cash benefits can be shown in the periodical statements of account either on the basis of amounts that have become due during the period (whether actually paid or not), or, by a simpler method of book-keeping, on the basis of amounts paid during the period. In the Accounting Code which is contained in Part III and which describes the book-keeping entries to be made, both methods are given so that either can be used

Petty Cash Payments

258. Small payments in cash, not exceeding the equivalent of [\$ U S A 10], may be made from "Petty Cash", which consists of an advance or "imprest" held by a sub-cashier. The amount of the imprest should not exceed one month's average expenditure out of petty cash, and the advance made should be treated as a "standing imprest" - that is, an imprest restored periodically on presentation of vouchers for payments made.

259. When the petty cash keeper finds it necessary to have his imprest restored to its original amount, or, in any event, at the end of each month, he will present receipts for his disbursements to the appropriate officer, who will examine these and, if satisfied that the amounts have been properly paid, will complete Parts I and III of a payment voucher for the total amount vouched by the receipts, analysing the payments and inserting in Part I the Code numbers of the accounts to be debited. The payment voucher will be passed to the internal auditor who will complete Part IV of the form and dispose of the three copies of the form in accordance with the normal procedure

Chapter 3 - Receipts

260. All sums of money, including cheques and [any other forms of remittance, through the Post Office or otherwise, which may be in use in the particular country] received by the Institution shall, if not received directly by the cashier, be passed to him in accordance with the procedure dealt with in paragraphs 313-318, or, with regard to receipts in respect of sales of insurance stamps, in accordance with a special procedure described in paragraphs 270-279.

261. For every amount received by him the cashier will issue to the payer a receipt on Form FN2 (which is the top copy (white) of the Form FN3) (or Form C5 for amounts received for the purchase of insurance stamps). These forms will be supplied in pads serially numbered and interleaved with blue and pink sheets (signed as Form FN3) to serve as copies. Each receipt will be completed in triplicate by means of carbon paper, or in the alternative manner referred to in paragraph 231. The cashier will insert on the blue and pink copies of the receipt the Code number (or numbers) of the account(s) to be credited. In most cases this will be self-evident. If, however, the cashier is in any doubt he will consult his superior officer.

262. The cashier will then record the amount received in the "Cash" column of the cash book and will note on the blue and pink copies of the receipt form a reference to the entry in the cash book (consecutive number of entry and folio). He will record in the "Cash" column amounts received in the form of cheques or other forms of remittance, as well as in coin or currency notes; where the remittance is not in the form of coin or currency notes he will note the form of remittance in the "Type of Remittance" column of the cash book (e.g. "cheque", "postal order", etc.).

263. [The reason for this is to enable the "Cash" columns to contain a complete record of the amounts, in whatever form they may exist, which come into or leave the custody of the cashier. When the cheques are paid into the bank (which should be done daily) a transfer will be made from the "Cash" to the "Bank" column of the cash book. Similarly, if postal orders are encashed at a Post Office, the amounts would be credited in the "Cash" column when the postal orders are taken to the Post Office and when the cashier receives the proceeds of the encashment such proceeds would be re-debited in the "Cash" column.

264. In this way the balance of the debit and the credit "cash" columns will represent the amount in the custody of the cashier at any time, and on any surprise inspection of the cash book by the internal auditor or a supervisor belonging to the Finance and Accounts Division the cashier will be responsible for producing the amount of the balance, in whatever form it may exist - coin, notes, cheques, postal orders, etc. 7

265. The copies of the form of receipt (Forms FN2 and FN3) will be disposed of by the cashier as follows:

- the top copy (white - Form FN2) will be sent or given to the payer;
- the second copy (blue - Form FN3) and the third copy (pink - Form FN3) will be passed to the internal auditor.

266. The internal auditor will examine the FN3, including the notation of the account(s) to be credited, and if the receipt is in order and there is no reason why the amount should not be accepted he will sign the blue and pink copies. He will pass the pink copy to the book-keeper as the posting medium for the credit to the account(s) noted thereon and will return the blue copy to the cashier to retain as his voucher for the entry in the cash book.

267. The book-keeper should be instructed not to credit any amounts without the endorsement of the internal auditor on the blue copy of the receipt.

Receipts in respect of Insurance Contributions

268. Whether a social insurance scheme collects insurance contributions by the method of selling insurance stamps to employers or by the "pay-roll" method, under which periodical payments are made by the employer in cash or by cheque based on the employer's pay-roll, a special procedure will be required to cope with the large volume of receipts in respect of contributions and to check that all of the contribution income due is properly received and accounted for.

269. In the Handbook on Methods and Procedures alternative methods of organising the collection of contributions are given according to whether the "stamp" method or the "pay-roll" method is used. Similarly, alternative methods will be given below of organising the work of the Finance and Accounts Division according to whether the one method or the other is used.

Collection by the Stamp Method

270. Under this method insurance stamps are sold for cash. Before sale, the stamps must therefore be controlled as strictly as if they were in fact cash. As explained in paragraph 357, a Central Office Stamps Stock Record, a suggested ruling for which is given in Part V (Form FN24) should be kept for the record of receipts of stamps from the printer and the issue of stamps to the offices at which they are to be sold to employers.

271. If it is desired to keep a check on the volume of purchases of stamps by particular employers in order to verify that sufficient stamps are purchased to cover the latest known number of insurable employees, it may be that stamps will be put on sale only at offices of the Institution where this check can be readily applied. Otherwise, stamps may be sold at post offices, banks, government offices, etc. as well as offices of the Institution.

272. Where outside agents are entrusted with the sale of insurance stamps issues to the agents will be recorded in the Central Office Insurance Stamps Stock Record. At the same time a separate Insurance Stamps Stock Record for each agent will be kept, which will be debited with issues, in quantity, denomination by denomination, and credited with numbers of stamps sold when statements of sales are received periodically from the agent.

273. These agents' stamps stock records are kept in quantities and not money because it would be incorrect to treat the agent as a cash debtor when the stamps are issued to him. He does not become a debtor of the Institution for cash until he sells stamps, and it is only then that a financial account will be debited, in the name of the agent, in the Sundry Debtors Ledger, the corresponding credit being to Sale of Insurance Stamps account. Until the stamps are sold the agent remains, of course, liable to account to the Institution, but for stamps (as indicated on the Insurance Stamps Stock Record for the agent), not money. For the same reason the stamps do not represent contributions until they are actually sold.

274. The Handbook on Methods and Procedures describes a procedure for the sale of insurance stamps at offices of the Institution. In that case, as suggested in the Handbook, it will probably be found most convenient, since the stamps are equivalent to money, to entrust to the cashier the duty of holding the unsold stock of stamps, which he can deposit in his safe, and issuing the stamps against cash or cheques received.

275. Under the procedure described in the above-mentioned Handbook, applications for stamps, on Form C5 (in duplicate), are scrutinised by a clerk of Contributions Section, who, if satisfied with the application in relation to the latest information regarding the number of insured persons in the applicant's employment, will pass the application forms with the cash or cheque to the cashier. The latter will sign the receipt on both copies of the Form C5 and return them, together with the stamps requisitioned, to the contribution clerk, retaining the cash or cheque.

276. The cashier should keep an "Insurance Stamps Stock Record", (Form FN25) a suggested ruling for which is given in Section 2 of Part V, in which he will enter stocks of stamps received from Central Office, the voucher for which will be the white copy of the delivery note (see paragraphs 355-356). Instead of making individual entries, however, in the Insurance Stamps Stock Record and the cash book every time he issues stamps on a Form C5, the cashier should record these individual issues on a "daily Record of Sales of Insurance Stamps" (FN14). The form should be supplied in pads, interleaved with blue sheets to serve as copies, and the cashier should make his entries on the form in duplicate by means of carbon paper.

277. At the end of public business for the day (which should be earlier than the time at which the staff leave) the cashier will check his issues of stamps in relation to the cash receipts by making a physical check, denomination by denomination, of the stocks of stamps remaining, and subtracting the ascertained quantity from the opening stocks for the day plus any receipts. He will then compare the cash receipts as recorded on the Form FN14 with the total receipts for the day for stamp sales as shown on Form C6 which he will receive with the relevant Forms C5 from Contributions Section. If the two totals agree he will enter in the "Cash" column of the cash book the total amount received during the day for sales of insurance stamps, and in the Insurance Stamps Stock Record the total issues for the day, denomination by denomination.

278. He will then sign the schedule C6 and both copies of Form FN14 (on the last page if it has been necessary to carry forward to additional sheets) and will pass all of these, together with the relevant Forms C5, to the internal auditor.

279. The internal auditor will scrutinise all of these documents and will check the additions and other calculations on the FN14. He will then verify the entry in the cash book of the day's takings for sales of insurance stamps and if he is satisfied that all is correct he will sign the internal

auditor's certificate on both copies of the FN14 and will dispose of the forms as follows:

- the top copy (white) of the FN14 to the cashier as his voucher for the entry in the cash book, and also for the entry in the Insurance Stamps Stock Record;
- the second copy (blue) of the FN14 to the book-keeper as the posting medium for the receipts in respect of sales of stamps;
- the C6 and relevant C5s to the manager of the local office for transmission to Contributions Section at Central Office (see Handbook on Methods and Procedures paragraph 855(i)).

Collection by Pay-Roll Method

280. Under this method the employer makes periodical payments of contributions in cash or by cheque, and submits a schedule, which is based on his pay-roll, and which lists the names, social insurance registration numbers and other particulars of the insured employees in respect of whom the contributions are paid. When the amount of the contribution is related to the pay of the insured employee, either as a straight percentage of the pay or an amount which depends on the particular pay range in which the actual pay falls, one of the essential particulars to be shown will be the pay or the appropriate pay range for each insured employee for the period. A "Remarks" column will enable the employer to give details of periods of sickness, holidays or other absences without pay, for which no contribution is due, and the schedule will thus show, for each employee and in total, the amount of the contributions paid.

281. The schedules on which these lists of employees and the insurance contributions in respect of each one are shown will usually be drafted and printed by the Institution so as to provide, in a convenient and standard lay-out, the particulars which the Institution requires. The schedules will be supplied to the employers for completion by them at intervals, often monthly, corresponding to the periods for which contributions are to be paid.

282. In addition to completing these schedules the duty is usually placed on the employer of informing the Institution and giving all necessary particulars when any employees leave his employment and when he engages new employees, or when changes of wages or wage rates take place. This is intended to enable Contributions Section to keep up to date their records of individual employers and the insured workers employed by them.

283. When the schedules are received from the employers, Contributions Section will check them against their current record relating to the employer and his insured employees and perhaps also against the employer's previous schedule. Any cessations of employment or new employees not previously reported will be noted and, if necessary, the employer will be asked to supply fuller particulars. The calculations and additions on the schedule will be checked for arithmetical correctness and if all is in order and the amount of the cheque corresponds with the total amount shown as due the cheque will be passed to the cashier, who will issue a receipt (FN2) in the ordinary way and bring the payment to account, noting on the blue and pink copies (FN3), as the account to be credited, "Insurance Contributions - Receipts in Cash from Employers".

284. If the employer or a representative calls at the office and tenders cash he should be asked to wait while the schedule is examined. When this has been done a note should be passed to the cashier stating the amount which he should receive and the employer or his representative should be referred to the cashier to make the payment and receive a receipt in the ordinary way. The staff of Contributions Section should not be permitted to handle the cash.

285. It will not always be possible to complete the examination of the lengthier or more complicated schedules before accepting payment and bringing it to account. In that case the schedules might be scrutinised generally, and if the remittance corresponds with the amount shown by the schedule as due it might be accepted provisionally. When the schedules are examined in detail later, any discrepancy between the amount paid and the amount found to have been due would be notified to Finance and Accounts Section for an accounting transfer to be made, debiting (or crediting) the amount of the discrepancy to a personal account to be opened in the Sundry Debtors (or Sundry Creditors) Ledger and completing the double entry by a credit (or debit) to "Insurance Contributions - Receipts in Cash from Employers" account. The employer would be notified and would clear the discrepancy either by sending a remittance for an additional amount due or, if the amount paid previously had been excessive, by deducting the amount overpaid from the sum due on his next schedule. In the latter case when the employer's next remittance was received short, Finance and Accounts Section would clear the outstanding credit in the personal account in the Sundry Creditors Ledger by an accounting transfer, debiting that account and crediting "Insurance Contributions - Receipts in Cash from Employers"

286. If arrangements such as those described above are adopted for examining the schedules and bringing to account the amounts remitted by the employers it will not be necessary for separate accounts for each employer to be kept in the financial ledgers except in two types of case - (i) the case referred to above where personal accounts in the Sundry Debtors or Sundry Creditors Ledger are raised only in respect of differences between the amount found to have been due and the amount remitted, and (ii) cases in which employers fall into arrears and fail to submit either schedules or remittances when these are due, and where personal accounts are debited in the "Employers in Arrears" Ledger.

287 The second type of case mentioned in the preceding paragraph is discussed in paragraphs 402-418 - Collection of arrears of insurance contributions from employers. It will be the duty of Contributions Section to report to Finance and Accounts Section (on Form FN16) details of amounts in arrears, and a debit will thereupon be raised in a personal account to be opened in the name of the employer in the "Employers in Arrears" Ledger. The debit balance thus created will be cleared subsequently either by receipt of the amount outstanding or by write-off of the debt under proper authority.

Alternative Accounting Arrangements

288. There are other accounting arrangements that may be adopted in connection with collection of contributions by the pay-roll method. Where employment and rates of remuneration are relatively stable and employers co-operate well in reporting cessations and commencements of employment, it may be practicable to determine, from the records of employers and their insurable employees kept by Contributions Section, the precise amount due from each employer at the end of each month or other collection period in respect of contributions, and to raise a debit in a personal account in an Employers' Ledger, crediting an Insurance Contribution account; the debit would be cleared when the schedule and remittance were received and the schedule had been examined and found to be correct.

289. In other schemes where there is a good deal of variation between one period and another in the pay on which the contributions depend, or where labour turnover is high, it is likely to be impracticable to apply the method described in the preceding paragraph. If it is nevertheless

desired to keep separate personal accounts for each employer it will be necessary to wait until a schedule has been examined before the amount due can be determined and a debit raised against the employer. It will clearly not be worth while to keep accounts in this way for every employer unless the practice is widespread of submitting schedules and remittances at different times, or unless the amount of the remittance turns out to be wrong in a substantial proportion of the cases.

290. Where most of the employers habitually complete their schedules correctly and remit the amount due with the schedules, the method of raising personal accounts in the Sundry Debtors Ledger only for "differences" as described in paragraph 285 above, and in the Employers in Arrears Ledger when employers fall into arrears, will probably be sufficient for all essential purposes.

291. The Handbook on Methods and Procedures describes a method suitable for a scheme where employment and remuneration are sufficiently stable to make it possible to determine the total amount due in respect of contributions from each employer on an annual basis, so that provisional payments could be accepted monthly and an appropriate adjustment made at the end of the year. Contributions Section of Central Office would determine the provisional monthly amount by making a calculation based on the latest known information regarding the number of employees and their remuneration. This amount payable monthly would, however, be subject to variation at any time if any substantial alteration occurred in the data on which the calculation was based.

292. At the end of each year an up-to-date return would be obtained from each employer of his employees and their remuneration, and in the light of that return the amount due for the year would be reviewed in retrospect and an appropriate adjustment, in relation to the provisional monthly payments, would be made one way or the other. If this method is used a personal account will have to be raised for every employer, but only once a year, and in respect of "differences", on the lines described in paragraph 285 above.

Action by Cashier and Internal Audit

293. Whatever the method of accounting adopted with regard to personal accounts of employers in the financial books, the cashier will probably find that he has to deal with a large volume of receipts at the time when the monthly

or other periodical payments to be made by employers fall due. He should therefore record these periodical receipts on a special Form FN15 (Daily Record of receipts from employers in respect of insurance contributions) in order to obtain daily totals for entry in the cash book in one figure, and to enable the book-keeper to post the daily receipts in one figure to the credit of the Insurance contributions - Receipts in Cash from Employers" account.

294. The cashier will state on the FN15 whether the amount has been received in cash, by cheque, or by any other form of remittance, and will record the name and registered number of the employer as well as the amount received. Forms FN15 will be supplied in pads, interleaved with blue and pink sheets to serve as copies, and the cashier will make the entries on the form in triplicate by means of carbon paper.

295. At the close of public business each day the cashier will total the receipts as recorded on the FN15 for the day and will enter the total in the "Cash" column of the receipts side of his cash book (see paragraphs 263-264 above). He will then balance his cash to satisfy himself that after taking into account his total receipts and disbursements for the day the balance of cash with which he is left is correct. He will then sign the FN15 for the day and pass all three copies to the internal auditor, together with the blue and pink copies of the relevant receipt forms FN3.

296. The internal auditor will check the entries on the FN15 with the copies of the FN3s and will check the additions on the FN15. He will then verify the entry of the total for the day in the cash book and if he is satisfied that all is correct he will sign the internal auditor's certificate on the FN15 and will dispose of the forms as follows:

- the top copy (white) of the FN15 to the cashier as his voucher for the entry of the total in the cash book;
- the second copy (blue) to the book-keeper as the posting medium for the credit to "Insurance contributions - Receipts in Cash from Employers" account;
- the third copy (pink) to Contributions Section as the posting medium for the entries on the Forms R3 for the individual employers;

- the blue copies of the receipts (FN3) to the cashier for retention;
- the pink copies of the receipts (FN3) to Contributions Section with the pink copy of the FN15 for retention in registered number order.

297. As suggested in Note 16 (Mechanised Accounting) collection of insurance contributions by the pay-roll method is one of the parts of social insurance accounting that lends itself most readily to mechanisation if the volume of the work to be performed is large enough to justify this course.

298. Sundry debtors and sundry creditors ledgers are also readily capable of being mechanised with advantage (see paragraphs 1091-1097) and if a particular scheme uses one of the accounting arrangements considered above which involves keeping personal accounts for employers or a large proportion of them, the use of an accounting machine for the work may be worth considering.

Chapter 4 - Accounting Transfers

299. An accounting transfer involves a debit to one account and a credit of the same amount to another account without any cash passing, or one or more debits and one or more credits of the same amount in total, again without any cash passing.

300. It will be evident that great harm could be done if accounting transfers were not strictly controlled, and therefore precise rules are required - and machinery to enforce them - for the authorisation of all accounting transfers, whatever their nature.

301. Just as it would be possible to authorise payments without using a separate action sheet in the form of a payment voucher (Form FN1) for each payment, accounting transfers might also be authorised without using a separate form for each. When this is done transfers are usually authorised in a book called a "journal" and the book-keeper posts the entries to the ledger accounts from the journal. (This is why accounting transfers are sometimes referred to as "journal transfers" or "journal entries".) For the sake of uniformity and greater security, and in order to use a procedure corresponding to that for authorising payments, the use of a form such as Form FN4 is, however, recommended.

302. If the use of forms such as FN4 is agreed for authorising accounting transfers, the forms should be supplied in pads, serially numbered and interleaved with blue sheets to serve as copies, and should be completed in duplicate by means of carbon paper (see, however, paragraph 231).

303. As explained in paragraphs 225-227, a list should be drawn up of the officers who are empowered to authorise payments and accounting transfers, and the list should state the limits, financial or according to subject, within which the officers named on the list are authorised to exercise the particular function.

304. Some accounting transfers may be of a technical character or at any rate may require a clear understanding of the accounting principles which give rise to the need for making the transfer - for example, the transfer operations on a sub-accountant's current account to incorporate in the Central Office books the balances notified on the monthly

statement (Form FN17) received from the sub-accountant (see paragraphs 821-823), or the transfers to "Net adjustment on revaluation of consumable medical supplies" account (see paragraphs 876-879) For this reason, and because accounting entries in the financial books must always be of particular concern to the senior staff of the Finance and Accounts Division it may be considered that the duty of authorising accounting transfers and the power to authorise them should be confined to such senior staff, either at Central Office or at local or other subsidiary offices. Throughout this study it has therefore been assumed that this will be an invariable rule.

305. When a transfer has been authorised on Form FN4 (in duplicate) by the completion of Part I of the form and the signature of the authorising officer, both copies of the form will be passed to the internal auditor, or the local representative of the internal audit service at a subsidiary office. The internal auditor will examine the transfer and if he is satisfied that the signatory of Part I of the form is duly empowered to authorise the transfer and that it is otherwise in order in all respects, will sign the certificate in Part II of the form (in duplicate) and pass both copies of the form to the book-keeper for the posting of the entries as directed in Part I.

306. The book-keeper will be given strict instructions that he must not take action on an FN4 unless Part II of the form has been completed by the signature of the internal auditor signifying that he approves the transfer, and as the internal auditor will check that the officer who has signed Part I of the form is duly empowered to authorise the transfer, this seems to provide adequate machinery for the enforcement - referred to in paragraph 300 above - of the rules relating to transfers.

307. After satisfying himself that Part II has been properly completed, the book-keeper will make the required entries, dating the entries in each of the accounts according to the date of authorisation of the transfer as indicated by the date inserted in Part I of the FN4, and noting in the appropriate column of each of the accounts as the authority for the entry the serial number of the FN4. He will also insert, in the columns of Part I of the FN4 provided for the purpose a cross-reference to the posting of each debit and credit (folio of the ledger and number of the entry).

Finally, he will complete Part III of the FN4 by signing the form and inserting the date on which he made the postings.

308. The book-keeper will retain the top (white) copy of the FN4 as his voucher for the entries he has made and will return the second (blue) copy to the authorising officer for retention by him.

PART II

Section 4 - Safeguards against Error or Fraud

(See Notes 10 and 17 of Part IV)

Chapter I - General

309. The previous section, in dealing with the procedure relating to Payments, Receipts and Accounting Transfers, made use of several of the principal devices on which reliance is to be placed for the prevention or detection of error or fraud - mainly the independent pre-payment check - by the internal auditor - of amounts authorised for payment, and the recording of payments and receipts by the book-keeper, independently of the cashier, from copies of the original payment vouchers and receipts.

310. This section will deal with a number of other provisions which should be included in the procedural instructions as indispensable safeguards against error or fraud. These procedures form a part of the accounting arrangements not less necessary than the plan of accounting and the book-keeping instructions, and it is of special importance that a careful watch should be kept to ensure that the procedures are continuously observed and properly carried out.

311. It will be one of the responsibilities of the internal audit service to keep this watch on behalf of the Director-General and the Board, and to bring to notice any slackness or carelessness in carrying out the procedures laid down, or any respects in which the procedures may be amended so as better to serve the purposes for which they are intended.

312. Staff Instructions should emphasise that it is the duty of every officer of the Institution to safeguard the property of the Institution by co-operating in the strict observance of the instructions relating to the matters dealt with in this section. The warning should also be given that neglect of any part of the instructions will be treated as a serious disciplinary offence and that the officer concerned may be required to make good from his own resources any loss that may result from, or may have been facilitated by, such neglect.

Chapter 2 - Incoming Cash and Valuables

313. As a general rule, anyone who comes to an office of the Institution to make a payment should be conducted to the cashier, who alone should be authorised to accept cash, cheques, etc. and to give a receipt. In connection with the collection of insurance contributions, however, if collection is effected by the pay-roll method cheques presented with schedules may be passed, with the schedules, to the Contributions Section in the first place (see paragraph 283), and if, under the stamp method, insurance stamps are on sale at offices of the Institution, the procedure described in paragraphs 270-279 should be followed.

314. Currency notes, cheques, other forms of remittance, or valuables of other kinds (e.g. unused insurance stamps) sent to an office of the Institution by post will be received in the first place in the Post-opening Section of the Registry.

315. Staff allocated to the opening of correspondence will work in pairs. All remittances or other articles of value enclosed in letters received will be registered in a special register (Form FN8) - the "Valuables Book" - in addition to being registered in the normal way in the register of incoming mail, and both of the officers who open the correspondence will sign the entry in the valuables book.

316. In countries which practise the system of "crossing" cheques, any cheques received in the Registry not already crossed will be immediately crossed "Social Insurance Institution Account" by means of a rubber stamp. (The effect of crossing a cheque, i.e. drawing two parallel lines across it, in countries which use the system, is that the bank on which the cheque is drawn will not pay the amount in cash but will only transfer the amount to another bank, for credit of the account of a customer of that bank - or, if a particular account is named in the crossing, for credit of that account, e.g. "Social Insurance Institution Account".)

317. The articles registered in the valuables book will be disposed of as follows. Currency notes, cheques, postal orders, etc. will be passed to the cashier, who will acknowledge receipt by signing the valuables book. The cashier will then deal with the remittances in the ordinary

way, sending receipts (Form FN2) to the remitters and recording the amounts in the "Cash" column of his cash book (see paragraphs 262-264). He will place the cash, cheques, postal orders, etc. in his safe, these forms of remittance being treated as part of the cash balance until the cheques have been paid into the bank, the postal orders cashed at the post office and any other forms of remittance turned into cash in the appropriate manner.

318. Unused insurance stamps will also be passed to the cashier, who will acknowledge receipt by signing the valuables book. He will record the receipt in his Insurance Stamps Stock Record, (Form FN25 - see paragraph 276), giving a reference, as a voucher for the receipt, to the entry in the valuables book which he has signed. At the Central Office these insurance stamps will not usually be on sale; the cashier will treat any stamps as part of his cash balance until they are transferred to the cashier of a local or other selling office. The action to be taken in relation to the person who has sent the insurance stamps will depend on the circumstances in which they have been sent, but normally a receipt on Forms FN2 and FN3 would be issued.

319. Valuables other than those which the cashier takes on charge in his cash book and insurance stamps taken on charge in the insurance stamps stock record (for example, documents of title to real estate, receipts for keys of safes, certificates of various kinds, important legal documents) will be deposited in one or other of the office safes or in a lockable cabinet. All such documents should be passed through the valuables book whether or not they have been received in the incoming mail. The officer into whose charge they are given will acknowledge receipt by signing the valuables book and a record will be made in the valuables book as to where they have been deposited.

Chapter 3 - Safes, Keys and Checks of Cash

320 Strong safes, burglar-proof to as high a degree as possible, and sufficiently large to provide a margin of space for unforeseen contingencies, should be provided for the Central Office and each of the subsidiary offices. The safes should be such as require two persons to be present to open them, each using a separate key. The cashier would keep one key and the senior officer of either the internal audit service or the Finance and Accounts Division who is stationed in the building would keep the other. At a smaller office, where there might not be any other officers sufficiently senior, the local office manager might keep the second key.

321. At the commencement of business each day the safe will be opened by the senior officer and the cashier in the presence of each other, and the contents of the safe will be examined and agreed by them. The senior officer will leave open the lock controlled by him and during business hours the cashier will be solely responsible for the safe and its contents, opening and closing the safe to deposit or withdraw cash as required.

322. At the close of business the senior officer will request the cashier to open the safe and will count the contents in the presence of the cashier. If the amount of the contents thus ascertained agrees with the balance of the cash columns of the cash book, the cashier will rule off and bring down the balance and both he and the senior officer will sign in the cash book against the balance thus brought down. The safe will then be locked in the presence of both, and each will retain custody of his own key. (It will be remembered that the "Cash" columns will include entries relating to cheques and other forms of remittance which the cashier has received - see in this connection paragraphs 262-264.)

323. Other smaller safes may be operated by one key only. These will be controlled by a single officer who will hold the key of the safe and will be personally responsible at all times for the contents of the safe.

324. An officer who is personally responsible for the contents of a safe or has custody of the key of a safe should at all times carry the key on his person. The key should not be left in the office, even in a locked drawer. This instruction regarding keys of office safes must be maintained even though at a given time the safes may be empty or the contents unimportant, since at no time should it be possible for unauthorised persons to have access either to the keys or to the locks of safes.

325. Any safe which is small enough to be removed from the office by burglars should be bolted to the floor.

326. All cash, cheques, postal orders, social insurance or postage stamps, controlled documents and valuables should be kept in one or other of the office safes and each safe should be kept locked at all times except when it is necessary to open it to put something into it or take something out.

327. Safes should not be used as a storage place for articles of no value. The amount of cash or other valuable property retained in safes, particularly overnight, should be the minimum possible. Cash surplus to immediate requirements should be deposited in the bank.

328. Spare keys of safes, to which resort can be had in case of need, should be deposited with the bank at which the current account of the office is kept. Each key should be placed in a sealed envelope labelled with the number of the key and the safe to which it relates, and the bank should be instructed not to release it except on the written instructions of the Director-General, countersigned by the Internal Auditor in the case of the Central Office, or the manager, countersigned by the local representative of the Internal Auditor, in the case of a regional or local office. Specimen signatures of the Director-General and the Internal Auditor, or the manager and the local representative of the Internal Auditor, as the case may be, will be given to the bank at the time when the spare key is deposited, to enable the bank officials to satisfy themselves before releasing a spare key that the request is not fraudulent.

329. The count of the contents of the safe by the Internal Auditor or other senior officer at the close of business each day, and verification by him that the ascertained amount agrees with the balance of the cash columns of the cash book, requires to be supplemented by a check of the cash book itself to verify from receipt forms, payment vouchers and other documents (e.g. Forms FN7, FN14 or FN15) that the entries are correct and complete, and that the balance shown by the cash columns is what it should be. The reason for this is that a fraudulent cashier, knowing that the contents of the safe will be checked at the close of business each day, will make certain, by one device or another, that the balance of the cash columns agrees with the contents of the safe; it is therefore necessary also to verify that the balance shown by the cash book is genuine and correct.

330 The duty of carrying out this verification would most appropriately fall on the internal auditor. If the internal auditor is the "senior officer" who holds one of the keys of the safe he would perform the check of the day's entries in the cash book at the time when he counts the contents of the safe before locking the safe for the night. If the internal auditor is not the senior officer who holds one of the keys of the safe he should perform the check of the cash book daily, but at irregular times.

331. When he does so he will call for the cash book and the cashier's vouchers, satisfy himself that every payment shown since his previous check is vouched by a properly completed payment voucher or appears on a Form FN7 (Daily Record of payments of Cash Benefit) which he has checked, that the sequence of the printed serial numbers of the pink copies of the receipt forms (FN3) is complete and that every receipt since his previous check has been brought to account in the cash book. (A check from the cash book to the pink copies of the receipt forms is inadequate.) He will then check the additions of the cash book and ascertain the balance shown by the cash columns. He will complete the check by requesting the cashier to open the safe and by counting the contents in the presence of the cashier in order to verify that at the time of the check the contents corresponded with the cash book balance. The internal auditor will then mark the cash book in such a way that he can commence the next check of the cash book from that point.

332. In general, surprise inspections of cash, insurance stamps, controlled documents, etc. are more efficacious than inspections, even daily, at a particular time of the day. If, therefore, the internal auditor is the holder of the second key of the safe and on that account makes his daily check of the cash book at the close of business for the day, he should nevertheless, in addition, make occasional surprise inspections at irregular times during the day. If the internal auditor is not the senior officer who holds the second key of the safe and therefore counts the cash at the close of business each day, the inspections of the cash book and the concurrent count of the contents of the safe made by the internal auditor should always be surprise inspections.

333. In the case of small schemes, or at small subsidiary offices of larger schemes, there may not be enough work to keep an internal auditor employed full time. In such cases the duties of the internal auditor should be carried out by an official acting part-time as internal auditor, and carrying out other duties, preferably having nothing to do with cash or accounts, in the remainder of his time. It should be possible to organise the duties, even in a very small office, so that the checks of the cash book and the contents of the safe, and the other duties of the internal auditor, are carried out by someone who is completely independent of the cashier and whose other duties have no connection with the Finance and Accounts Section of the office.

334. Another method, where two or more small subsidiary offices are near to one another or to the Central Office, would be to have a full-time internal auditor who would travel daily between the offices, dividing his time between the offices as necessary.

Chapter 4 - Banking Arrangements

(See Note 10 of Part IV)

335. As pointed out in Note 10 of Part IV, one general current account may be opened, or several current accounts may be opened for different purposes. It is assumed that the former method will be adopted, but the suggestions made below regarding procedures can be adapted easily to suit the other method.

336 At the Central Office it is probable that the bulk of both receipts and payments will be by cheque. A small supply of cash will be needed for petty cash payments, and cash will have to be drawn from the bank weekly and monthly for the payment of weekly wages and monthly salaries, but receipts in cash will be few, unless, under the "pay-roll" system, a number of employers make their periodical payments in respect of insurance contributions in cash to the Central Office.

337. At regional or local offices, where cash benefits will be paid, the amount of cash to be paid out will be considerable, but receipts in cash are likely to be small except in so far as employers purchase insurance stamps by paying cash, or, under the "pay-roll" system, pay contributions in cash.

338. However, such cash as may be received should be used for making payments. There is no need, if one general current account is maintained at the bank, to keep cash received separate from cash for payments. The book-keeper will maintain the necessary records of receipts and payments separately.

339 The cashier's principal preoccupation should be to keep to a minimum the amount of cash, cheques, etc. that must be retained in the safe overnight. As late as possible each day before the bank closes, therefore, all cheques and any cash surplus to the amount estimated to be required for payments during the remainder of the day, should be transferred to the bank.

340. The cashier will complete a "paying-in" slip, in duplicate, on which he will note the cheques to be paid in and any cash to be transferred to the bank. If staff resources permit, two officers should take the cheques, cash,

and one of the copies of the paying-in slip to the bank by car (with an office chauffeur), and pay them in, obtaining an acknowledgement from the bank on the counterfoil of the paying-in slip, or by any other method customary in the particular country. They will bring back this acknowledgement to the cashier, who will make the appropriate entry in his cash book transferring the total amount from the "Cash" to the "Bank" column. (See paragraphs 262-264.)

341. At the commencement of business each day the cashier will make an estimate of his cash requirements for the day, taking into account probable cash receipts, and if the balance of cash retained in the safe overnight is insufficient for the day's requirements as estimated, it will be necessary to draw cash from the bank.

342. This will be done on the authority of a payment voucher which will, of course, be signed by a duly empowered authorising officer (probably belonging to the Finance and Accounts Division), and checked and certified by an officer of appropriate rank of the internal audit service. The cheque to be taken to the bank will be made payable, in cash, to the officer, by name, who is to go to the bank to collect the money, and will, of course, be signed by an officer duly empowered to sign cheques of the amount required.

343. At offices where cash benefits are paid and at the Central Office on the days when the monthly salaries are paid, the amount of cash required may be considerable, and special consideration should be given to the problem of transporting the cash safely from the bank to the office. If possible the cashier himself should go to the bank to collect it. If sufficient staff is available two officers should go, by car (with an office chauffeur) and bring back the cash, which the cashier will deposit in the safe, crediting the "Bank" column and debiting the "Cash" column of his cash book.

344. The difference between the totals of the "Bank" columns on the debit and credit sides of the cash book will at any time indicate the balance which should be standing to the credit of the Institution at the bank. This balance will, however, not necessarily correspond with the balance as shown in the books of the bank. The cash book balance will be depleted every time a cheque is drawn in favour of a payee but the accounts kept by the bank will remain unaffected until the cheque is presented to the bank for payment.

Again, the bank may not give the Institution credit at once for cheques paid in, but the cashier will have taken credit for such transactions when he transferred the cheques to the bank.

345. Because of these and other circumstances there will usually be some divergence between the cash book balance and the balance as shown by the books of the bank, and at the end of any accounting period it is of great importance that any such divergence should be thoroughly investigated and the two balances thus "reconciled". This is a duty which should be performed by the internal auditor before he can be satisfied completely regarding the correctness of the "Bank" transactions as shown in the cashier's cash book.

346. Arrangements should therefore be made that the periodical statements of account rendered by the bank to the Institution should be sent direct to the internal auditor who should thereupon prepare a Bank Reconciliation Statement. In view of the importance of achieving complete reconciliation it is an obvious safeguard and deterrent against fraud to arrange for the reconciliation statement to be prepared independently of the cashier and before he has access to the bank's periodical statements of account.

347. To the balance as stated by the bank there must be added the amount of any cheques which the cashier has transferred to the bank and for which the bank has not yet given the Institution credit, and from the total there must be deducted any payments which the cashier has made by cheques which have not yet been presented to the bank for payment. Other adjustments may be required, one way or the other, and the final figure resulting should correspond with the balance of the "Bank" columns as shown by the cash book.

Chapter 5 - Custody and Control of Unused Insurance
Stamps

348. If a social insurance scheme collects insurance contributions by the method of selling insurance stamps to employers to be affixed to the insurance cards of their employees, it is obvious that to prevent any leakage, measures of control as strict as those applied to cash must be applied to unused insurance stamps.

349. The stamps may be printed, at home or abroad, by a firm which specialises in security printing (bank notes, postage stamps, etc.) or they may be printed at home by a general printer. In the former case reliance would be placed on the special security measures adopted by the printer, and strict accounting would commence with the receipt by the Institution of the consignments of stamps.

350. In the latter case security measures would start at the point when the stamps come into existence; that is, at the workshop of the printer. A contract will be entered into for the printing of a specified quantity of stamps - probably not less than, say, two years' expected consumption - and the terms of the contract should include security provisions designed to prevent the possibility of any stamps being printed surreptitiously and disposed of fraudulently.

351. The precise terms of the security clauses of the contract will depend on the technical methods of printing to be employed. In general, however, provisions on the following lines should be included in the contract:

- (a) the whole of the printing to be supervised and controlled by a representative, or, preferably, more than one representative of the Institution, who shall be present at the workshop of the printer during the whole of the time when the stamps are being printed;
- (b) the plate or other device which contains the design of the stamps and which has therefore to be introduced into the machine before the printing commences, to be and to remain the property of the Institution; the plate to be delivered to the printer on the commencement of printing each day, to be removed from the printing machine and returned to the representative(s) of the Institution as soon as printing ceases, and to remain in his (their) custody until printing again commences;

- (c) if practicable, a device to be incorporated in the printing machine which will automatically number the sheets of stamps printed;
- (d) in any event the sheets of stamps, on emerging from the machine, to be handed over to the representative(s) of the Institution against his (their) signature(s) for the number of sheets received.

352. Strict accounting will therefore commence as soon as sheets of insurance stamps are received from the printers, and both for security reasons and because of the space required for storage it may be the best plan to arrange for the packets to be stored in the strongroom of the bank used by the Central Office. A separate steel cabinet with a secure lock should be provided, to be kept in the strongroom, and the key of the cabinet should be kept by a senior officer of the Institution - perhaps the head of the Finance and Accounts Division - who would have sole authority to deposit stamps in, or withdraw stamps from, the cabinet.

353. When it is desired to deposit or withdraw stamps the authorised officer would be accompanied by one of a panel of officers authorised by the Director-General to accompany the authorised officer. A book should be kept at the bank in which the authorised officer and the accompanying officer would sign on the occasion of each visit. Specimen signatures of the authorised officer and of the panel of accompanying officers would be supplied to the bank as a check on the authenticity of the Institution's representatives. By arrangement with the bank, the official of the bank who opens the strongroom would also sign in the book on each occasion when access is granted to the cabinet.

Receipt of Stamps

354. When packets of stamps are received from the printer the authorised officer will check them for quantity and quality, and deposit them in sealed packets in the cabinet in the strongroom of the bank. He will then prepare an entry note (Form FN5) which he will sign. The top copy (white) will be passed to the printer as an acknowledgment of receipt; the second copy (blue) will be passed to the Book-keeping Section; the third copy (pink) will be retained by the authorised officer.

Issues of Stamps

355. Issues of packets of stamps to local offices of the Institution for sale to employers or to other selling agents such as banks, post offices, etc. will be made on the authority of a delivery note (FN6), to be signed by the head of the Contributions Division, who will pass the white and blue copies to the authorised officer for action, retaining the pink copy.

356. The authorised officer and one of the panel of accompanying officers will withdraw the stamps required from the cabinet in the strongroom of the bank and send or deliver them to the local office, obtaining a receipt on the white and blue copies of the delivery note. The white copy will be retained by the recipient of the stamps and the blue copy will be passed to the Book-keeping Section.

Stamps Stock Records

357. The Book-keeping Section, or, if preferred, the authorised officer personally, will keep the Central Office Insurance Stamps Stock Record (Form FN24), which will account for receipts and issues - separately for the different denominations of the stamps. (The entries are likely to be few in number but for large amounts,) Receipts will be vouched by the blue copies of the entry notes and issues by the blue copies of the delivery notes. On each occasion when an entry is made in the Central Office Insurance Stamps Stock Record the section of the record headed "Balance in Hand" will be completed. A suggested ruling for the record is given in Section 2 of Part V.

358. The authorised officer will be responsible for checking periodically that the balance in hand as shown by the Central Office Insurance Stamps Stock Record corresponds by number and denomination with the stock of stamps held in the cabinet at the bank. In any case, this check should be performed at the end of each financial year by making a complete count of the sealed packets in the cabinet and a count of individual sheets if any of the packets have had to be opened in order to withdraw a broken number of sheets.

359. In the case of schemes where stamps are sold to employers at offices of the Institution, the cashier should, it is suggested, have custody of the stock of stamps held for sale. He would deposit the unsold stamps in his safe and keep an "Insurance Stamps Stock Record" (Form FN25) as explained in paragraphs 274-278.

Chapter 6 - Documents of Potential Value

360. Every form which may be issued in exchange for cash or goods, or may be used to facilitate fraud, should be treated as a "controlled document", and arrangements should be made for the safe custody of such documents and for strict control of their use, or of their disposal otherwise, e.g. as spoiled.

361. Controlled documents include cheque books (as well as loose blank cheques), payment vouchers (Form FN1) receipt forms (Forms FN2 and FN3), entry notes (Form FN5), delivery notes (Form FN6), blank pages of loose-leaf ledgers (regarding which see Note 15 of Part IV), etc.

362. Supplies of controlled documents, which should be serially numbered in the course of printing, will, immediately on receipt, be delivered to a senior officer of Finance and Accounts Division appointed to be responsible for the control. After carefully checking them to ensure that they are complete and that the numerical sequence, as printed on the forms, is correct, he will take them on charge in a Register of Controlled Documents (FN9) and will complete an Entry Note (FN5), disposing of the three copies in the normal way (see paragraph 234). In the Register he will note against each entry the first and last serial number of each batch.

363. Whenever any pad is issued the officer to whom it is issued will acknowledge receipt by signing in the Register against the first and last serial number of the pad, and when any pads, unused or partly used, are returned, they will be taken on charge again and the first and last serial numbers of the unused forms recorded. The officer responsible for the control will check that the numerical sequence of the returned books is complete and will acknowledge receipt by signing the entry.

364. It will be the duty of the Head of Finance and Accounts Division to satisfy himself, by inspection at frequent but irregular intervals, that all the forms are properly accounted for. This will require a scrutiny of the Register and a physical count of the unissued packets in store.

365. Should any forms be spoiled or should it be necessary to cancel any, all the copies will be clearly marked "Cancelled" in red ink and the officer so marking them will

sign below the marking. The copies thus marked will be left in the pad unless they have already been detached, in which case they will be returned to the officer responsible for the control, who will sign for them.

366. Where supplies of controlled documents are issued to regional or local offices and cannot therefore be signed for in the Register, Forms FN10 and FN11 (Invoice and Receipt for Controlled Documents) will be used. The forms will be supplied in pads, interleaved with blue and pink sheets to serve as copies (Form FN11) and will be completed in triplicate by means of carbon paper. The top and blue copies will be sent with the documents to the recipient, who will acknowledge receipt of the documents by signing Part II of the form, the blue copy of which he will return to the sender.

367. Forms FN10 and FN11 will also be used in a similar manner for the return to store of unused or spoiled documents.

Chapter 7 - Duties of Cashiers

368. In order to avoid errors and to facilitate balancing and checking, all entries in the cash book should be neat and clear. Corrections should not be made in the cash book (nor in any other book of account) by erasure. Any wrong entry should be ruled out by means of a single line being drawn through the erroneous figure and the correct entry made immediately above it so that both the erroneous entry and the correct entry are clearly legible. Such alterations should be initialled by the officers making them.

369. Entries in the cash book should show on the Receipts side - the consecutive number of the entry, the date of the receipt, the name of the person from whom the money has been received, a description of the transaction, the account to be credited, the serial number of the receipt issued (Form FN3), the type of remittance (cheque, postal order, etc.) and the amount.

370. On the Payments side there should be shown in each case - the consecutive number of the entry, the date on which the payment was made, the name of the payee, a description of the transaction, the account to be debited, the serial number of the payment voucher (FN1) and the amount.

371. There will be a Bank column as well as a Cash column on both sides of the cash book and -

- (a) payments will be dealt with as explained in paragraphs 241 and 242 (payments by cheque) and paragraph 243 (payments in cash);
- (b) receipts will be dealt with as explained in paragraphs 261-265 - cheques, postal orders and any other forms of remittance being recorded in the Cash column for the reasons mentioned in paragraphs 263-264;
- (c) when cash is drawn from the bank the amount will be debited as a receipt in the Cash column and credited as a payment in the Bank column; when cash (including cheques) is paid into the bank, the entries will be similar but in reverse.

372. It is the duty of every cashier to examine and check the entries in his cash book daily, to balance the cash book and to compare the balance of the Cash columns with the

cash, cheques, postal orders etc. in hand at the close of the day. In the process of balancing, a diagonal line should always be ruled from the last entry on the side with the fewer entries down the line in which the totals are shown, so that no entry can be made after balancing.

373. Any discrepancy in the balance of the Cash columns must be reported forthwith to the cashier's supervising officer who will, pending inquiry, authorise on a Transfer Form (FN4), the transfer of the amount to Losses. Suspense Account or Cash Surplus Suspense Account as the case may be.

374. For the procedure when one cashier hands over to another, see paragraph 389 below.

Chapter 8 - Duties of Book-Keepers

375. The Book-keeping Section will be responsible for keeping the accounts of the Institution other than the cash book.

376. These will be kept, for convenience, in a number of ledgers, which may be differently ruled to suit the requirements of the different kinds of accounts to be kept. A possible arrangement of ledgers is suggested in Part III, Section 3, (immediately preceding paragraph 718) and suggested rulings are shown in Part V, Section 3.

377. In connection with the duties of book-keepers, paragraph 368 should be read and regarded as equally applicable to entries in the ledger accounts.

378. When the book-keeper receives from the internal auditor the pink copies of the receipt forms (FN3) - see paragraph 266 - he should see that they have been signed by the internal auditor and should examine them for continuity of the consecutive numbers which the cashier will have noted on the blue (and pink) copies of the receipts (paragraph 262) to indicate the consecutive entries on the debit side of the cash book. This will ensure that none has been lost in transit, a contingency that would prevent the Trial Balance from balancing. He will then credit the account noted on the receipt form. He will number the entries in each account consecutively and will write the number of the entry on the copy of the receipt form and the other particulars required to complete Part IV of the form before filing it for reference or for audit later. The date of the entry will be the date of receipt as shown on the receipt form.

379. Alternative methods of recording expenditure according to whether accounting is to be on the basis of items due for payment or - the simpler method - items paid are discussed in Note 7 of Part IV, and described in paragraphs 731-740. In either case, however, the book-keeper will post from the blue copy of the payment voucher (FN1) and, as in the case of receipts (see previous paragraph), he should see that every payment voucher has been signed by the internal auditor and should examine the blue copies for continuity of the consecutive numbers of the entries on the credit side of the cash book.

380. As explained in paragraphs 244-254, payment schedules will be used as the payment vouchers for cash benefits. As in the case of other expenditure, an alternative method of recording cash benefits is described in paragraphs 735-740.

381. Another source from which the book-keeper will make entries in the ledger accounts will be Accounting Transfer Forms (FN4). He will see that every transfer form has been signed by the internal auditor, and will date the entries in the ledger accounts to correspond with the date of the authorisation of the transfer.

382. In the ledger accounts he will insert a reference to the serial number of the transfer form, and on the transfer form he will insert a reference to the consecutive numbers of the entries and the folios of the ledger accounts to which the amount has been posted. Where a transfer involves two accounts only, the narrative relating to the entry in each of the accounts will refer to the other (e.g. Office Furniture Account will be credited "By Depreciation" and Depreciation Account will be debited "To Office Furniture".) Where, however, more than one account would have to be referred to, the narrative would be "To Sundries" or "By Sundries", as the case may be.

Chapter 9 - Miscellaneous

Segregation of Book-keeping Section

383. In order to maintain the strictest separation of the Book-keeping Section and the cashier it is desirable that the two should be accommodated in separate rooms - preferably on different floors - and that the cashier, and any sub-cashiers, should be strictly forbidden to enter the room or rooms occupied by the Book-keeping Section. Conversely, the staff of the Book-keeping Section should be strictly forbidden to enter the accommodation occupied by the cashier.

384. In offices where cash benefits are paid it will probably be necessary for the cashier to be accommodated in the room which contains the public counter (which should always be provided - in a large room with plenty of space for a number of callers to be attended to simultaneously, and with the counter dividing the "public" part of the room from that used by the staff).

385. A part of the counter should be reserved for the cashier's use, and payees - principally recipients of cash benefits - would receive payment there. Thus the cashier's safe and a table at which to work would have to be situated on the "staff" side of the room which contains the public counter.

386. Whether the cashier is accommodated in the room which contains the public counter or elsewhere (as might be the case at the Central Office) the rule prohibiting access to the quarters occupied by the Book-keeping Section - and vice versa - should be absolute.

387. The ledgers should be locked up in a safe or steel cabinet when not in use during the day, and in any case at the close of business each day, the book-keeper or senior officer of the Book-keeping Section retaining custody of the key overnight. If the room occupied by the Book-keeping Section is left unattended at any time during the day it should be locked.

388. Similarly, the cashier should lock up his cash book in the safe overnight, and at any time during the day when he leaves the room.

Handing Over

389. When one cashier hands over to another, the incoming and outgoing cashiers will together count and agree the amount of cash, cheques, etc. being handed over, and satisfy themselves that the amount corresponds with the balance shown in the cash book. The cash book will then be ruled off and the balances brought down. A certificate will be inserted in the cash book at that point, and will be signed by both, detailing the cash, cheques etc. handed over and certifying that they agree with the cash book balance.

390. Similar arrangements should be applied when a change of officer individually responsible for the contents of any other safe, store, or locked cabinet takes place.

391. When stores have to be handed over they should be checked in detail unless they are so numerous as to make this impracticable in the time available. The Head of the Division responsible for the stores will decide the extent of the check to be made and, therefore, to what extent the hand-over certificate may be qualified.

392. When controlled documents have to be handed over, the hand-over certificate to be signed by both the incoming and outgoing officers should give the first and last serial numbers of the controlled documents.

Duties of Storekeepers

393. The duties of storekeepers are dealt with in Chapter 3 of Section 6 below (paragraph 458-480) which covers "Supplies, Stock Records and Stocktaking".

Regional or Local Offices

394. The various procedures, devices and arrangements designed to provide safeguards against error or fraud dealt with in this Part are applicable in general to regional or local offices as well as the Central Office, and should be applied throughout the Institution, with any necessary modifications which local circumstances or a smaller volume of operations may require.

Fidelity Bonds

395. Many social insurance schemes take out fidelity bonds or insure in some similar way against the risk of loss through defalcation by cashiers, storekeepers and other officers who have custody or control of the funds or other property of the social insurance institution. This is not a "safeguard" in the sense in which safeguards have been discussed in this section, but a method of avoiding, at the cost of an annual premium, the consequences of losses occurring through malpractices on the part of the officers included in the insurance.

396. If it is desired to take out an insurance of this kind the matter might be dealt with in the Financial and Accounting Regulations. A provision requiring this to be done is included in the draft Financial and Accounting Regulations contained in Chapter 2 of Section 8 of Part II - see paragraph 581.

PART II

Section 5 - Accounting Controls

(See Notes 2, 6 and 11 of Part IV)

Chapter 1 - Financing and Budgetary Control

396. As well as including the safeguards against error or fraud which are dealt with in the two previous sections, the accounting arrangements should provide for the operation of certain accounting controls.

Financing of Social Insurance Scheme

397. The widest of these controls is referred to in paragraph 207, and in the case of schemes to which it is applicable it is applied through the preparation of separate Income and Expenditure Accounts for each of the branches of insurance and for administration. The contribution income will be divided in the proportions assigned to each branch and to administration when the initial estimates of cost were made at the time when the financial basis of the scheme was being planned, and the preparation of separate Income and Expenditure Accounts will enable the Board to keep a continuous watch on the out-turn of income and expenditure (i.e. the realised income and expenditure) in relation to these initial estimates and to take appropriate action when for any reason the initial estimates prove to have been seriously wide of the mark. For this purpose the accounting plan must provide for the necessary classification of expenditure.

398. In this connection one of the principal practical problems will be to separate expenditure on salaries and wages relating to the provision of medical care from that on salaries and wages relating to administration. The solution suggested is to treat as attributable to the provision of medical care the salaries and wages of all technical staff so engaged, and as attributable to administration the salaries of all purely clerical staff. For the purpose of this classification all non-clerical employees in or about hospitals, dispensaries, etc. e.g. cleaners, kitchen staff, ambulance drivers, etc. would be treated as technical staff and therefore chargeable against the provision of medical care, and all keepers of records, accounting staff and other clerical workers would be treated as administrative staff and therefore chargeable against administration.

399. It should, however, be noted that the salaries of staff engaged in any capacity in dealing with appeals would be treated as chargeable to administration. This would include doctors, even when dealing with appeals relating to the provision of medical care. The cost of all appeals machinery is properly regarded as part of the cost of the administration of the social insurance scheme rather than as part of the cost of providing the service appealed against.

Budgetary Control (see Note 2 of Part IV)

400. Another similar but more specific and much closer control to be provided for is budgetary control by the Board, based on an annual budget of income and expenditure to be approved by the Board before the beginning of the year to which it relates. The classification of both income and expenditure for entry in the accounts will be based on the heads under which the budget estimates are shown, and the monthly and annual statements of account prepared for submission to the Board will be compiled under the same heads so as to show the out-turn (i.e. the realised income or expenditure, as the case may be) of each particular item, in relation to the figure for the item in the budget as approved.

401. As indicated in Note 2 of Part IV it will be a special responsibility of the internal auditor to keep a close watch throughout the year on the progress of both income and expenditure under the budget heads and to report to the Board as soon as the probability emerges that expenditure under any head is likely to exceed the budget estimate as approved for that head, or that income under any head is likely to fall short of the relevant figure in the budget as approved.

Chapter 2

Collection of Arrears of Insurance Contributions from Employers

(See Note 6 of Part IV, paragraphs 993-995)

402. Another accounting control which will be provided for is that relating to collection from employers of arrears of insurance contributions. Sales of insurance stamps to employers or, under the "pay-roll" system, receipt of the periodical remittances from employers will be controlled by Contributions Section. It is likely, however, that in any particular scheme a number of employers will fall into arrears in stamping insurance cards or making the periodical payments due. An accounting record of the amounts due should therefore be set up and an accounting control of the collection of the arrears, or the write-off, under proper authority, of the arrears as irrecoverable, should be maintained.

403. There are two reasons why the establishment of an accounting control of arrears is desirable. The first is to ensure, independently of the Inspectorate or the Contributions Section to whom the inspectors will report, that the debts due to the Institution will be kept in view and not suppressed or forgotten - either by inadvertence or design.

404. The second reason is to provide an effective deterrent against the possibility that an inspector, visiting an employer in arrears, may be tempted to collect the arrears, or part of the arrears, in cash, and retain the money; if access to official receipts (Forms FN2) is properly controlled (see paragraphs 360-367) the inspector would probably give an unofficial receipt. This type of fraud has proved to be one of the most prevalent in certain schemes. The operation of the accounting control would be designed to ensure that the employer would be approached in due course. The statement would thus be elicited that he had made payment to the inspector, if such was the case, and he would produce any receipt the inspector might have given for the payment.

405. The fact that a particular employer is in arrears is likely to be discovered either by the local office, from examination of the local office record of employers, or, under the pay-roll method of collection, from periodical examination of the employer's contribution register sheet, or

as a result of one of the periodical visits by an inspector to test compliance by employers with the Contributions Regulations. The cases where the discovery that an employer is in arrears is made by either the local office or Contributions Section of the Central Office will almost certainly also require a visit by an inspector to confirm the facts and if possible establish the amount of the arrears. Thus in all ordinary cases of arrears there will be a report by an inspector which will be filed in Contributions Section.

406. If the inspection report confirms that the employer is in arrears the details should at once be reported to Finance and Accounts Division (Central Office) by Contributions Section on Form FN16. This should be done whether or not the employer has made any proposals for liquidating the arrears (e.g. by payment in instalments), and whether or not legal action against the employer has been, or is likely to be, decided on.

407. The essential requirement is to have the existence of the debt recorded in the accounts, and in this connection submission of the Form FN16 must not be delayed on the ground that the exact amount of the arrears is not known. The approximate amount due should be stated on the form, with an indication that the amount is approximate only, and when the exact amount has been determined later an adjustment should be made by means of a supplementary FN16.

408. Forms FN16 will be supplied in pads, serially numbered and interleaved with blue sheets to serve as copies, and will be completed in duplicate by means of carbon paper. Contributions Section will send the top (white) copy to Finance and Accounts Division and will retain the carbon (blue) copy which will be filed with the inspector's report.

409. When the white copies of Form FN16 are received in Finance and Accounts Division they will be examined for continuity of the serial numbers printed on the forms, and after being signed by the officer of the Finance and Accounts Division who has completed a Form FN4 to which the FN16 will be attached, will be passed to the internal auditor, who will then pass them to the Book-keeping Section for the necessary accounting entries to be made.

410. The book-keeper will debit a personal account which he will open in the name of the employer in an "Employers in Arrears" ledger, crediting "Amounts due from Employers in Arrears" in the General Ledger.

411. When the inspector establishes the amount of the arrears, whether exactly or approximately, in a scheme where payment is by the "stamp" method, he should withdraw the insurance cards which have not been stamped, or have not been stamped up to date. This will provide necessary evidence for legal action if that is decided on to obtain the amount due, and will also provide a convenient means whereby Contributions Section can give credit to the employees concerned for the contributions due, so that they will not suffer from the employer's default - this is a usual feature of most social insurance schemes. The inspector will issue fresh "continuation" cards for current and future contributions.

412. If an undertaking by the employer to make good the arrears, by instalments or otherwise, is accepted, the employer will be instructed to make payment to the local office cashier, indicating that the remittance is in liquidation of arrears of contributions as agreed. When the cashier gives a receipt for the remittance he will note on the blue and pink copies of the receipt form FN3 that the account to be credited is the employer's personal account in the Employers in Arrears Ledger.

413. In the case of a scheme which uses the "pay-roll" method and where an employer falls into arrears, the inspector, after agreeing the amount due in respect of the arrears, should similarly withdraw the schedule or schedules which have not been completed, or at any rate have not been submitted to the Institution accompanied by a remittance for the amount when due; and if an undertaking by the employer to make good the arrears, by instalments or otherwise, is accepted, the employer, as in the case where the "stamp" method is used, will be instructed to make payment direct to the local office cashier, not accompanied by any schedule, but indicating that the remittance is in liquidation of arrears of contributions as agreed. When the cashier gives a receipt to the employer he will note on the blue and pink copies of the FN3 that the account to be credited is the employer's personal account in the Employers in Arrears Ledger.

414. These arrangements should ensure that payments in liquidation of arrears are duly credited to the employer's account in the Employers in Arrears Ledger, and not treated as current payments to be credited to Contributions Account in the ordinary way. If, however, the cashier is in any doubt as to which account should be credited, he should consult Contributions Section. He should enter directly in the cash book, and not on Form FN15, these payments in liquidation of arrears.

415. The existence of the debits in the Employers in Arrears Ledger, which must remain outstanding until cleared either by payment of the amount due or by the debt being formally written off as irrecoverable under proper authority given in writing, acts as a means of ensuring that the debts will be kept in view and not suppressed or allowed to remain dormant, either by inadvertence or design.

416. The effectiveness of this control will depend on the "Employers in Arrears" Ledger being examined frequently by a senior member of the Finance and Accounts Division whose duty it will be to see that collection of the debts is being actively pursued, by administrative pressure, legal action, or otherwise. Where a number of visits by inspectors has to be made to a particular employer in connection with arrears it should be an invariable rule that successive visits are made by different inspectors (see paragraph 404).

417. To ensure that all cases of arrears are notified to Finance and Accounts Division by Contributions Section on Form FN16, one of the duties of the internal auditor will be to scrutinise inspectors' reports relating to non-compliance by employers and to check that a form FN16 has been completed in every case where this should have been done.

418. In cases where it becomes evident that further effort to collect the amount due would be abortive, or where for some other reason the debt is likely to be irrecoverable (for example the death or imprisonment of the employer) it should be submitted for authority to write it off as irrecoverable. Small outstanding debts, not exceeding the equivalent of, say, U.S.\$10, might be written off as irrecoverable on the authority of the Director-General. Amounts above that figure should be scheduled for submission periodically to the Board and should be written off only with the Board's express approval. The officer of Finance and Accounts Division who signs the transfer form (FN4) to be sent to the book-keeper directing the write-off of the debt as irrecoverable will be responsible for satisfying himself that the required authority for the write-off has been obtained.

Chapter 3

Accounting Control of Losses, Deficiencies and Overpayments

(See Note 11 of Part IV)

419. A rather similar type of accounting control to be provided for relates to losses, including deficiencies and overpayments. As soon as any such loss comes to light the amount involved will immediately be recorded in the double-entry system of book-keeping - debit Losses Suspense Account, credit Cash, or Income from Insurance Contributions, or Salaries account, or whatever other account has suffered the loss. The effect of this will be that the loss cannot be lost sight of or deliberately forgotten, since the debit balance on Losses Suspense Account will continue to appear in the accounts submitted at the end of each month until it is cleared by the recovery of the amount of the loss, or transferred, under proper authority, to Losses Account for charge in the final accounts for the year.

420. Subject to what is said in paragraphs 429 and 430 below, where a loss or deficiency of cash, insurance stamps or any other property of the Institution, or any overpayment, comes to light in any way whatever, the amount of the loss or overpayment should therefore at once be made the subject of an accounting transfer on Form FN4, which will direct the debit of the amount involved to Losses Suspense Account and the corresponding credit to the account which has suffered the loss.

421. At the same time the loss should be reported to the officer in charge of the division in which it has occurred. If, however, the amount or value involved exceeds the equivalent of, say, U. S. \$30, or, irrespective of the amount or value, if there is any reason to suspect that the loss is the result of theft, embezzlement or fraud, the matter should be reported immediately to the Director-General, who should report it to the police authority if, in accordance with the criminal law of the country, or public policy, the circumstances of the case require it to be so reported.

422. The officer to whom the loss, deficiency, or overpayment is reported, or the Director-General, as the case may be, should take all necessary measures to ascertain whether it was the result of dishonesty or was caused or facilitated by negligence or carelessness on the part of any officer or officers, and whether the occurrence discloses any defect in the existing system of control. A small committee of investigation would usually be appointed, consisting of two or three senior officers, one of whom might with advantage be the Internal Auditor or a senior officer of the internal audit service.

423. If as a result of the investigation undertaken under the preceding paragraph any officer is found to be guilty of dishonesty, or of negligence or carelessness which facilitated the loss, deficiency, or overpayment, the Director-General will take any necessary disciplinary action against such officer or officers, and will determine whether the amount lost or overpaid, or any part thereof, is to be recovered from him (or them).

424. Any amount thus to be recovered will be transferred from Losses Suspense Account and charged against him or them accordingly in a personal account (or accounts) to be opened in the Sundry Debtors ledger, and will be recovered either in cash or by deduction from salary or allowances due. Overpayments recovered from the payee would be credited to the Losses Suspense account. Any irrecoverable balance of that account will be transferred, under proper authority, to a Losses Account.

425. If it is determined that no part of the loss, deficiency or overpayment is to be recovered, the whole of the amount charged to Losses Suspense Account will be transferred from that account to a Losses Account. These transfers will be made on the authority of transfer forms (FN4) signed by an officer of Finance and Accounts Division empowered to authorise such transfers, or by the Director-General in cases where, in accordance with paragraph 421, the loss was reported to him.

426. Where the investigation undertaken under paragraph 422 discloses any defect in the existing system of control all possible steps should be taken to remedy the defect, not only in the branch in which the loss or deficiency occurred but, if required, in any branches elsewhere in which similar conditions or procedure exist. (It is laid down in the draft Financial and Accounting Regulations (see paragraph 582) as a condition to be satisfied before the Board will allow the amount of a loss to be charged in the Income and Expenditure Account, that steps must be taken as far as possible to prevent the occurrence of similar losses in the future.)

427. In view of the special importance that should be attached to losses, as representing wastage of funds entrusted to the Institution by insured persons and employers, and as losses may indicate defects of administration or control, the authority of the Board will be required for the charge of any losses in the annual accounts - see paragraph 582, already referred to. Consequently, if at any time the total amount charged to Losses Account exceeds the equivalent of, say, U.S. \$150, the Director-General should submit a report to the Board explaining the circumstances in which the losses have occurred.

428. He should submit similar reports in respect of each additional amount equivalent to U.S. \$150 (or whatever figure is determined) that may be charged to the Losses Account, and at the end of the financial year in respect of any amount charged to that account not previously reported upon. As provided in paragraph 582, referred to above, no amount is to be charged as losses in the final accounts of the Institution for any year unless the Board, on considering such reports, authorises the charge.

429. Where a loss or deficiency not exceeding, say, 5 per cent. of the existing stock is disclosed as a result of stocktaking, the report of the stocktaking shall state whether, in the opinion of the reporting officer, the loss or deficiency can be regarded as due to natural causes - such as, for example, evaporation, or as being within a reasonable tolerance for loss as a result of issuing from bulk in small quantities.

430. In a case where the reporting officer expresses an affirmative opinion on this matter, and if the officer in charge of the department or division concerned is satisfied with the explanation of the loss or deficiency, he may, within the limit of 5 per cent. of the existing stock mentioned in the preceding paragraph, and with the concurrence of the internal auditor, authorise any necessary adjustment of the stores records without the raising and subsequent clearance of a charge to a Losses Suspense Account as provided in the preceding paragraphs of this chapter.

431. As pointed out in paragraph 114, the effective operation of the safeguards against error or fraud dealt with in Section 4 of this Part, and of the accounting controls dealt with in this section, depends on the existence of a special service of internal audit. The duties of the

staff of the Internal Audit Service will include taking part in the operation of some of the procedures, e.g. the prepayment check of payment vouchers. Equally important, however, will be the responsibility of the internal auditor to the Board for making the necessary investigations to ensure that the various other safeguards and accounting controls prescribed are being properly applied.

432. It is a cardinal principle of administration that it is of little use to make rules and prescribe procedures unless some effective means of guaranteeing their enforcement is established at the same time. The work of the Internal Audit Service, which is dealt with in more detail in Section 7 of this Part (paragraphs 508-564) constitutes this means.

PART II

Section 6 - Supplies, Stock Records and Stocktaking

(See Notes 12, 16, and 17 of Part IV)

Chapter 1 - Annual Review of Needs

433. A complete review of the needs of the Institution for supplies of all kinds should be made once a year, so that the necessary provision can be included in the financial estimates. If the Institution's financial year runs from 1 January to 31 December, the estimates will have to be submitted to the Board not later than 31 October preceding the commencement of the financial year to which they relate. It will thus be necessary for the annual review of needs to be carried out and completed not later than 30 September so as to allow time for consideration and approval by the Director-General, and for Finance and Accounts Division to carry out during the month of October the work of estimating costs and analysing these costs between the budget heads under which the financial provision must be made.

434. Not later than 31 August of each year the Staff Services Division of Central Office will ask Heads of Divisions of Central Office, Chief Medical Officers of hospitals, etc. and Managers of local offices, to submit estimates of the supplies they will require during the ensuing year from 1 January to 31 December. This will be part of the annual operation to enable Central Office to prepare estimates of both income and expenditure for inclusion in the budget to be submitted to the Board for approval, and Heads of Divisions, Chief Medical Officers, etc. will at the same time be asked for estimates under other heads as well, including perhaps some relating to income.

435. As regards supplies, although the budget estimates will be submitted to the Board under a few comprehensive heads only - see the Appendix to Part II, Section 8 (following paragraph 606) - hospitals, local offices, etc. should be asked to submit their estimates of requirements under as many subdivisions of the main supply heads as practicable. Estimates under some of the main subdivisions would be asked for in quantities (or weight, volume, etc.) but where an inclusive estimate is required for a number of minor items the estimate would necessarily have to be given in money values.

436. It would be understood that supplies need not be obtained all at once. Contracts for the supply of certain items might, and in the case of some articles which are subject to fairly rapid deterioration (e.g. some medicines) should, provide for deliveries at intervals throughout the year according to requirements.

437. As a rough guide in estimating requirements of consumable goods such as stationery, or medicines, dressings, etc., the aim should be not to allow stocks to fall below a level representing approximately three months' consumption. Thus the estimate for the year should include provision to enable a stock of not less than three months' average consumption to be carried forward at the end of the year, and application for an increase in the budget provision (see paragraphs 793-796) should, if necessary, be made when stocks fall to a minimum of three months' average consumption. This should prevent any risk of essential supplies, such as stocks of particular medicines, running short while authority is being obtained, either from the Director-General or the Board, for an increase in the relevant budget provision.

438. Where the estimates include unusual or exceptional items of capital expenditure, or relatively costly items, they should be accompanied by a memorandum explaining fully the reasons for the inclusion of the item or items. When the Staff Services Division receive the statements of requirements, they will check them generally to co-ordinate them and eliminate any overlapping. Staff Services Division will then add their own estimated requirements and, taking into account the quantities of stocks in hand, will draw up a statement on Form FN20 (Annual review of supplies for purposes of financial estimates) of the total supplies which it is estimated will have to be purchased during the ensuing year for the Institution as a whole.

Purchasing Commission

439. A Purchasing Commission should be established, whose duty it would be to review the statement of estimated requirements and, later, when appropriate financial provision had been made in the financial estimates as approved by the Board, to invite tenders for the supply of the goods, receive and open the tenders and recommend acceptance of the most advantageous offers. The Purchasing Commission should consist of the Chief Finance Officer and at least two other senior officers to be appointed by the Director-General. The Director-General would also nominate one of the members as Chairman. In the unavoidable absence of any member the Director-General would appoint a representative to act in his place.

440. Staff Services Division would submit to the Purchasing Commission the statement on form FN20 of estimated requirements, and the Purchasing Commission would review the statement, considering each demand in relation to the needs of the particular service concerned and modifying the statements accordingly in so far as this might prove to be necessary. The Commission would submit their recommendations for the approval of the Director-General, and, when approved by the Director-General, the statement would form the basis of the provision relating to supplies in the financial estimates for the ensuing year.

441. Form FN20, as approved, would accordingly be passed to Finance and Accounts Division who would make estimates of the cost of securing the supplies. The items would then be regrouped as necessary in relation to the financial heads under which provision has to be made (see the Appendix following paragraph 606) capital expenditure, being, for example, separated from revenue expenditure, and the necessary financial provision for supplies to be purchased in the ensuing year would thus be included in the estimates to be submitted to the Board.

Chapter 2 - Tenders and Placing of Orders

Invitation to tender

442. As soon as the financial estimates have been approved by the Board, the Purchasing Commission will proceed to invite tenders for the supplies required. Except in the cases referred to in paragraph 449 below, the method of public tender should be used and the procedure described in the following paragraphs adopted.

443. Goods should be purchased direct from the manufacturer, whether at home or abroad, where that is possible, and to facilitate tendering it may be desirable to group the different sorts of supplies required.

444. The Purchasing Commission will prepare a list of approved firms at home or abroad producing the required items, and will draw up "Conditions of Tender" in consultation with Legal Division, and detailed specifications of the goods required. An invitation to tender and a copy of the Conditions of Tender and schedules of specifications relating to the goods or groups of goods supplied by the firm will be sent to each firm on the list.

445. In the case of goods which are produced at home the Commission should, in addition, insert by advertisement in at least two of the principal newspapers circulating in the business community a general invitation to apply for conditions of tender and schedules of specifications. This advertisement should state in general terms the types of goods required, and should appear at least a week before the invitations to tender are dispatched in accordance with the preceding paragraph. Conditions of tender and schedules of specifications should be sent to all firms who respond to the advertisement, whether or not they have been included in the list of firms prepared as described in the preceding paragraph.

446. The conditions of tender should state the date up to which tenders will be received and should require that the offers will remain open for at least a month after that date.

447. The conditions of tender should also contain the requirement that the tender shall be sent in a sealed envelope marked on the outside "Tender for the supply of - Meeting on (date)", and enclosed in another envelope similarly marked.

448. These inner envelopes must not be opened when they arrive in the Registry, but must be passed, unopened, to the secretary of the Purchasing Commission.

449. In the following types of case supply by the method of public tender should be waived:

- (a) for purchases of trifling amounts that could be made out of petty cash (i.e. not exceeding the equivalent of [U.S. \$10]);
- (b) where, by reason of the nature of the goods or the special quality required, the Purchasing Commission recommend that there is only one supplier who can be entrusted with the order; and
- (c) where for reasons of urgency of the need, distance, cost, or difficulty of transportation, etc. direct local purchase by a hospital, dispensary, local or other office of the Institution is necessary.

450. In the cases referred to in (b) and (c) of the preceding paragraph the Director-General would approve direct purchase, subject to reporting to the next meeting of the Board that he had done so, and requesting covering approval from the Board.

Examination of tenders

451. On the expiration of the period allowed for the submission of tenders the Purchasing Commission will meet to open and consider the tenders received. The Chairman will note in the minutes of the meeting the number of envelopes received, and after examining the seals and verifying that they are intact will open them one by one and number them in numerical order.

452. The tenders will then be checked in detail for correct multiplication and addition and signed as evidence of such check. Finally, the Commission will select the most advantageous offers for the different goods or groups of goods and recommend their acceptance. A schedule of recommendations will be signed by each member of the Purchasing Commission and submitted to the Director-General for approval.

Placing of orders

453. When the Director-General has signified his approval of the tenders recommended for acceptance by signing the schedule, copies of the schedule will be referred to the Staff Services Division and the Finance and Accounts Division, and the Staff Services Division will proceed to arrange for contracts to be drawn up in accordance with the accepted tenders. The contracts may cover the whole of the ensuing year, thus allowing the Institution to issue partial supply orders throughout the duration of the contract. This may be an advantage in the case of supplies such as certain pharmaceutical products which are liable to deteriorate if not consumed within a certain period after manufacture.

454. The contracts, after signature by both parties, will be retained by Staff Services Division and copies will be passed to Finance and Accounts Division.

Unforeseen requirements

455. Any requirements not foreseen when the annual review of goods for the entire year takes place would be reviewed by the Purchasing Commission who would consider, in the first place, whether there is sufficient financial provision in the estimates as approved for the year by the Board. If the Purchasing Commission are satisfied that the necessary financial provision is available, they would deal with the requirements in accordance with the principles and procedures described above relating to the annual review and the placing of orders resulting therefrom. In the event of financial provision not being available, the Purchasing Commission would consider whether the need for the particular requirements was sufficiently great to justify an application to the Board for an increase in the provision already made, and if they so decide, would recommend to the Director-General accordingly.

Code numbers

456. All supplies purchased by the Institution should be designated by a special number to be determined according to a suitable code, which might be arranged in some such way as the following:

Nos. 1 - 199 - Non-medical furniture and equipment
Nos. 200 - 399 - Non-medical consumable stores
Nos. 400 - 599 - Medical furniture and equipment
Nos. 600 and above - Pharmaceutical products, medical
appliances and other medical consumable stores.

Alternatively, pharmaceutical products might be given the code numbers by which they are listed in the Pharmacopoeia currently in use.

457. All articles belonging to the same category of supplies will be given the same code number, which, in addition, might be followed by a letter indicating particular characteristics. Thus if Code No. 300 is allotted to writing paper:

- sheets of thick white paper, quarto size, might be given the number 300/a;
- sheets of thick white paper, foolscap size, might be given the number 300/b;
- sheets of fine white paper, quarto size, might be given the number 300/c;
- sheets of fine white paper, foolscap size, might be given the number 300/d;
- sheets of fine pink paper, quarto size, might be given the number 300/e;
- sheets of fine pink paper, foolscap size, might be given the number 300/f;
- sheets of white squared paper might be given the number 300/g;

and so on.

Chapter 3 - Receipt and Issue of Stores

Receipt of stores

458. Supplies (except pharmaceutical products and other consumable stores - for which see paragraphs 478-480) will normally be delivered to the store at the Central Office from which the various branches and services of the Institution will be provisioned as required. Delivery will be taken by the storekeeper, who will hold the key of the store and will be personally responsible for its contents.

459. On taking delivery he will check the goods for correctness of quantity and receipt in good condition. Where, however, in order to avoid double handling of bulky goods, or for any other sufficient reason, the goods are delivered direct to the office or service requiring them, they will likewise be checked for correctness of quantity and receipt in good condition by a responsible officer of such office or service, who will report to the storekeeper of the Central Office the result of his check.

460. Pharmaceutical products, medical appliances and other medical consumable stores will in all cases be delivered direct to the Central Medical Store of the Institution, where the pharmacist or storekeeper will accept full responsibility for the stores. It will not, therefore, be necessary for him to report to the storekeeper of the Central Office regarding quantity and condition of goods delivered direct to him.

Duties of storekeepers

461. Within the general responsibility of the Head of the Staff Services Division, storekeepers will be held personally responsible for:

- (a) checking all stores received against the relative documents, reporting promptly to the Head of the Staff Services Division any damages or deficiencies and completing an Entry Note (Form FN5) (see paragraphs 233 and 234);
- (b) maintaining a Stock Record or an Inventory Book written up to date;

- (c) ensuring that adequate precautions are taken to safeguard the stores against theft or fire;
- (d) maintaining the stores in good condition and avoiding losses by waste or preventable deterioration;
- (e) ensuring that no articles are moved from the store except with the knowledge and approval of the storekeeper, and after the appropriate authority in writing has been given (the loan of articles for private purposes should be strictly prohibited);
- (f) ensuring that issues are made only against Delivery Notes (FN6), Requisitions (FN22) or Prescriptions (MC14), signed by officials (or medical officers) authorised to sign them, and that the issues are acknowledged by the signatures of the persons to whom the issues are made (medicines, etc. issued on prescriptions need not, however, be signed for);
- (g) ensuring that every transaction appearing on any voucher or form relating to a movement of stores is entered in the stock record or inventory book, that all vouchers or forms are properly filled up and that only the proper forms are used;
- (h) obtaining the proper authority for a write-off before striking off charge any stores lost, deficient or condemned; and
- (i) ensuring that stocks are kept within the limits of the normal requirements of the Institution and are not allowed to accumulate beyond the maximum nor to fall below the minimum levels laid down for each item.

462. Storekeepers will periodically verify stock balances with stock record balances. They must at once report to the Head of the Staff Services Division any excesses or shortages or any damage to stores, and also when the stock of any article is reduced to or below the minimum set by instructions issued to them.

463. When it is necessary for an official responsible for stores to hand over his duties he will agree with his successor and with the internal auditor the quantities of all items the custody of which is being transferred (see, however, paragraph 391). Thereafter a Handing-Over Certificate will be prepared in quadruplicate and all copies

will be signed by both officials and by the internal auditor. Each official will retain one copy, one copy will be sent to the Head of the Staff Services Division, and the fourth will be retained by the internal auditor. A detailed list of any excesses and deficiencies will be prepared, signed by both officials and attached to the Handing-Over Certificate together with an explanation by the official who has handed over.

Losses and deficiencies

464. Any losses or deficiencies of stores, whether reported by a storekeeper or ascertained when a Handing-Over Certificate is prepared or found as a result of a periodical stocktaking, will be dealt with in accordance with the procedure laid down in paragraphs 419-432.

Entry note

465. On receipt of stores, whether into the Central Office Store or the Central Medical Store, or direct to the office or service requiring them, (in which case the storekeeper will receive a report regarding the quantity and condition of the goods received, see paragraphs 459-460 above), the storekeeper will complete an Entry Note (Form FN5) for the quantity (or weight, volume, etc.) received. Entry notes will refer to the goods by quantity (or weight, volume, etc.) and not by price or value. They will be supplied in pads, serially numbered and interleaved with blue and pink sheets to serve as copies. Each entry note will be completed in triplicate by means of carbon paper (see, however, paragraph 231), the three copies being disposed of as follows:

- the top copy (white) will be sent to the supplier as acknowledgement of receipt;
- the second copy (blue) will be attached to the payment voucher (FN1) or retained until a payment voucher is issued;
- the third copy (pink) will be retained by the storekeeper as a voucher to support the entry which the storekeeper will have made in either the inventory book or the stock record.

466 If the goods are received in a damaged or otherwise unusable condition the storekeeper will qualify accordingly his certificate on the entry note but will take the goods on charge. He will report particulars of the damaged or otherwise unusable goods to the Head of the Staff Services Division who, if satisfied that the goods are unusable, will take up with the supplier the question of replacing them or making an appropriate adjustment of the invoice price. A sample of the damaged goods will probably have to be sent to the supplier, and as regards the remainder, unless the supplier wishes them to be returned to him, the Head of the Staff Services Division will convene the Purchasing Commission (see paragraph 339) to act as a Destruction Committee. When the goods have been destroyed the members of the Destruction Committee will sign a certificate of destruction, which the storekeeper will retain as authority for entering the quantities destroyed in the "Issue" columns of the stock record cards (paragraph 466 below), or inventory book (paragraph 469 below).

Store charge or inventory charge

467. At the same time as he completes the entry note (FN5) the storekeeper will record the receipt of the goods by taking them on charge - by quantity, weight, volume, etc., as appropriate, and not by price or value.

468. In the case of consumable goods (Code Nos. 200-399 and 600 and above) there will be a Stock Record Card (Form FN19) for each category of stores represented by a Code number. The storekeeper will enter the quantity, weight, volume, etc., (as appropriate) received, on the appropriate card, adding the date and the number of the relative entry note.

469. In the case of non-consumable goods (Code Nos. 1-199 and 400-599) he will record the receipt in an Inventory Book (FN21), adding the date of receipt and the number of the entry note, and stating the Section, Office, Hospital, etc. to which the article has been allocated. If it is held in the Central Office store for the time being, he will enter "In store" in the relative column. When an article is issued from the store or is transferred from one section, office, etc. to another, the new location will be indicated in the line immediately below that which records the previous

location. The section headed "Items Discarded" will be used to record that the article has been scrapped, sold or otherwise disposed of. Authority for discarding will be given by a Delivery Note (FN6), suitably adapted, which will be drawn up and signed by the Head of the Staff Services Division, and the date and number of the Delivery Note will be recorded in the inventory book, together with a brief note as to how the article has been disposed of.

470. It is important to ensure that all goods acquired, of whatever kind, are taken on charge as soon as they are received. One reason for this is that the payment voucher authorising payment for the goods will not be signed unless the authorising officer is satisfied that the storekeeper has properly completed the blue copy of the entry note and Part II of the payment voucher (FN1) by giving a reference to the goods having been taken on store or inventory charge. Consequently, the storekeeper will enter on the blue and pink copies of the entry note the serial number of the entry in the inventory book, or the date of entry on the stock record card, as the case may be. He will not make any entry on the top (white) copy of the entry note but only on the blue and pink copies, using carbon paper to obtain the entry on the pink copy.

Issues of non-consumable stores

471. Issues from store of non-consumable stores (Code Nos. 1-199 and 400-599) will be made on the authority of a Delivery Note (Form FN6) completed in triplicate by means of carbon paper and signed by a competent officer of the Staff Services Division. Delivery notes will be supplied in pads, serially numbered and interleaved with blue and pink sheets to serve as copies. The top copy (white) and the second copy (blue) will be sent to the storekeeper for action, and the third copy (pink) will be retained in the pad of forms. When the stores are delivered, the storekeeper will insert the date of delivery in the last column of the white and blue copies of the delivery note and will send both copies with the stores. The responsible officer of the section, etc. to which the issue is made will then sign the blue copy as an acknowledgement of receipt and will return it to the storekeeper.

472. The storekeeper will record the issue in the inventory book, noting the number of the delivery note in the relevant column and filing the blue copy, duly signed by the recipient of the goods, as a voucher to support the entry.

Issues of consumable stores

473. Issues of consumable stores other than pharmaceutical or medical consumable stores (Code Nos. 200-399) will be made on the authority of a Requisition (Form FN22) duly signed by an officer of appropriate grade (e.g. a section supervisor). Normally supplies of consumable goods should be issued only on a particular day of the week and requisitions should be submitted, say, two days before. The storekeeper will serially number the requisition forms which he receives, and when the goods are issued the officer who receives them will acknowledge receipt by signing Part II of the form and will return the form to the storekeeper.

474. The storekeeper will record the issue - in quantity, weight, volume, etc. - on the appropriate stock record card, noting the number of the requisition in the relevant column and filing the requisition as a voucher to support the issue.

475. Each time an entry is made on the stock record cards, the storekeeper will complete the column headed "Quantity remaining". He will be responsible for notifying the Head of the Staff Services Division whenever the stock of any particular article falls below the level represented by approximately three months' average consumption. The Head of the Staff Services Division will thereupon take the necessary steps to obtain approval for a replenishment of the stock, (see paragraph 455).

Medical equipment

476. The procedure relating to the purchase, receipt and issue of medical equipment will be as dealt with in the preceding paragraphs.

Pharmaceutical products, medical appliances, X-ray films and other medical consumable stores

477. The procedure relating to the purchase of these stores (Code Nos. 600 and above) will be as dealt with in the preceding instructions.

Delivery to the Central Medical Store

478. Delivery of the goods will, however, be made to the Central Medical Store. The pharmacist or storekeeper will examine them to check whether they are correct in quantity and received in good condition. If he is satisfied on these two points he will sign an entry note to acknowledge receipt, and will take the goods on charge - by quantity, or weight, volume, etc., and without reference to price or value - using a stock record card (Form FN19) for each item represented by a Code number and giving, on the stock record card, a reference to the entry note.

479. If the quantity (or weight, volume, etc.) is not correct, the pharmacist or storekeeper will qualify accordingly his certificate on the entry note and take on charge only the quantity received. If the goods are received in a damaged or otherwise unusable condition he will take action on the lines described in paragraph 466 above, qualifying accordingly his certificate on the entry note but taking the goods on charge until they can be entered as issues either when they are returned to the supplier or when they are covered by a certificate of destruction.

480. The pharmacist or storekeeper will be responsible for the safe custody of all the medicines, dressings, etc. stored in the Medical Store and the instructions in paragraphs 461-464 will, mutatis mutandis, be applicable to him.

Chapter 4 - Consumption of Pharmaceutical Products,
Medical Appliances, X-ray Films and
Other Medical Supplies

(See Note 12 of Part IV)

Issues from the Central Medical Store

481. Issues will be made from the Central Medical Store to the Institution's Hospitals, Dispensaries and other units used in connection with the provision of medical care. The issues will be authorised by Delivery Notes (FN6) - see paragraph 471 - which will be signed by the responsible Medical Officer of Central Office.

Receipt by Hospitals, Dispensaries, etc.

482. The stocks received from the Central Office Medical Store will be taken on charge, by quantity (or weight, volume, etc.) on stock record cards (FN19) by the pharmacist or storekeeper of the receiving unit, who will vouch the entry by reference to the white copy of the delivery note (see paragraph 471).

Issues by Hospitals, Dispensaries, etc.

483. Issues by hospitals, dispensaries, etc. will consist of:

- (1) provision of medicines, etc. to insured persons on medical officers' prescriptions (MC14), or
- (2) supplies to medical officers, nurses, etc. of medicines for, e.g., injections, or items other than medicines (e.g. dressings, alcohol, cotton wool, iodine, etc.).

484. How far it will be possible or practicable, for individual issues to be recorded on the stock record cards will depend on the circumstances and conditions at the particular unit - the volume of the issues, the staff available and other similar factors. It is important that arrangements should be made, if at all possible, to record individual issues of expensive or dangerous drugs on the stock record cards, for purposes of control, with a reference to the prescription on which the issue was made. It may also be practicable to record individual issues of medicines already packeted.

485. There will be some items, however, where issues are made from bulk - particularly dressings, etc. as mentioned in (2) of paragraph 483 above - and the only practicable method may be to arrive at total amount consumed during a month by ascertaining the quantity in hand at the end of the month and subtracting from the corresponding closing stock at the end of the previous month plus any receipts during the month.

486. In the light of the conditions prevailing at the particular unit a workable plan may be to divide the items into two groups (1) those where individual issues can and will be recorded, and (2) those where individual issues will not be recorded, but monthly consumption will be arrived at by ascertaining the quantity on hand at the end of each month.

487. In the case of the smaller units where issues are made to insured persons on prescriptions, the most satisfactory plan may be to keep the stocks of pharmaceutical products, etc. at the unit as low as possible and, for accounting purposes, to treat all issues to the unit from the Central Medical Store as pharmaceutical products, etc. consumed.

488. If this plan is adopted stock record cards should nevertheless be maintained at the unit. These would record receipts during a month and the balance of the item remaining at the end of each month, which should be ascertained by physical inspection and inserted on the card. If stocks are to be kept low, more frequent replenishments of individual items than would otherwise be the case may be necessary, and a monthly review of the level of balances will indicate when further supplies are required.

489. Except where the procedure mentioned in paragraphs 487-488 is in use it will be the duty of the sub-accountant of the unit to report, at the beginning of each month, to the Central Office, on forms FN18 (A, B and C), in respect of each item having a separate Code number, the quantity, weight, volume (as appropriate) consumed during the previous month (see paragraphs 805-812). In the case of items included in the first group mentioned in paragraph 486 above, consumption will be ascertained from the record of issues and will be shown in Part I of Forms FN18. In the case of the items included in the second group, consumption will be arrived at by deducting the amount of the item remaining in stock at the end of the month from the corresponding amount at the end of the previous month plus any receipts during the month, and will be shown in Part II of Forms FN18.

490. If, in the case of small units, the plan referred to in paragraphs 487-488 is adopted, issues of all items to the unit will, of course, be ascertainable from the records of the Central Office Medical Store and the completion of Forms FN18 by the sub-accountant of the subsidiary unit will not be necessary.

491. Instead, the pharmacist, or storekeeper, of the Central Medical Store will complete Part I of Forms FN18 (A, B and C, suitably adapted) in respect of the subsidiary unit, and will submit them, through the Central Office internal auditor, to Finance and Accounts Division. It will be a responsibility of Finance and Accounts Division to ensure that a set of Forms FN18 (A, B and C) and only one set, is received each month in respect of every subsidiary unit to which pharmaceutical products, medical appliances and other medical supplies are issued.

492. Finance and Accounts Division will then evaluate monthly the consumption of pharmaceutical products, medical appliances, X-ray films and other medical supplies as shown on the Forms FN18 - see paragraph 825.

493. The completion of Forms FN18 by hospitals, dispensaries, etc. at the beginning of each month may prove to be an onerous task, whether consumption is arrived at from the record of issues on the stock record cards or by ascertaining the closing stock of each item and deducting it from opening stock plus receipts. If for any reason (such as the necessary staff not being available) it is found to be impracticable to complete the FN18s monthly, and if mechanisation of this part of the accounting work (see paragraphs 495-500) is out of the question, it could perhaps be arranged to complete the FN18s at the beginning of each quarter, and to show consumption per quarter instead of per month.

494. This easement should not, however, be adopted except in the last resort. If monthly Income and Expenditure accounts are to be submitted, any makeshift method of arriving at consumption month by month, such as basing it on issues from the Central Medical Store to the unit, would be likely, except as regards small units such as are referred to in paragraph 487 above, to destroy much of the value of preparing monthly accounts in so far as they relate to the cost of the provision of medical care. In practice, reliance would have to be placed on quarterly accounts as regards medical care.

Chapter 5 - Mechanisation of Stock Records

(See Note 16 of Part IV)

495. In view of the large volume of posting to be done to keep the stock record cards up to date - particularly in connection with issues of pharmaceutical products and other medical supplies - and the many opportunities which exist for arithmetical error in making entries in the balance column after every posting, the possibility of mechanising the work might be considered.

496. This sort of accounting work is well adapted to be performed by an accounting machine. Such a machine would make the entries of receipts and issues, calculate automatically and enter the new balance after every posting, and prove the accuracy of the postings in the manner explained in paragraphs 1091-1096 of Note 16 of Part IV.

497. Receipts would be relatively few and would be recorded separately from issues. Issues would be recorded in batches from the prescriptions, delivery notes, or requisitions, as the case may be. For proving purposes both the "pre-list" and the "summary sheet" (see paragraph 1095 of Note 16) could add together indiscriminately quantities of some items, and units of weight, volume, etc. in the case of other items - all that is needed for checking purposes is a numerical total.

498. It might also be worth while to mechanise the preparation of the Forms FN18 A, B and C. The accounting machine would print the opening balance for the month (as shown by the stock record card) of each item which has a separate code number, automatically add any receipts during the month and subtract the closing balance (both of these balances having been arithmetically proved) and enter the difference as the consumption for the month. If Central Office notified to the sub-accountants concerned the unit prices to be used for evaluating the consumption, the hospital, dispensary, etc. might, by the use of an accounting machine with a multiplying device, also ascertain the value of the consumption of each item for the month and thus complete the FN18s in one operation.

499. It will be evident that if the stock records and the statements of consumption are mechanised, the forms as drafted in Part V will have to be rearranged and a new layout used to suit the design of the particular type of machine

which will be used to make the entries on them. The stock record "card" (FN19) might have to be a paper slip, or at any rate made of cardboard thin enough for a carbon copy of the entries to be taken. It will have to be of a size to suit the machine and the columns will be rearranged to conform to the standard pattern for machine work whereby the receipts, issues and balance columns are placed together at the right-hand side of the form. Similarly in the Forms FN18 A, B and C there will have to be a separate horizontal line for each item.

500. Otherwise the procedure relating to the receipt, custody and issue of the items would be carried out as outlined, and the existence of the balances of the different items would be verified by a physical stocktaking, at least once a year, as explained in the following chapter.

Chapter 6 - Stocktaking

(See Note 17 of Part IV - Internal Audit)

501. The arrangements for the control of stores described in the preceding chapters of this section will be completed by physical checks, made at least once a year, independently of the storekeeper, of the existence of the stores which are indicated by the balances of the stock record cards for each item, or by entries in an inventory book.

502. It will be essential to ensure that all stocks or stores, whether held at the Central Office, or at a hospital, dispensary, local or other subsidiary office of the Institution, are verified by an annual stocktaking. The stocktakings will take place as far as possible at the end of the financial year, and may be performed by the Internal Auditor or a member of his staff, or such other independent officer as the Director-General may appoint. In any event, the Internal Auditor will, if possible, control the operation, and will be responsible for satisfying himself that an independent verification is properly carried out.

503. Since the physical existence of each item of stocks or stores will be checked against the balance shown on the stock record card (or inventory book) relating to the item, it is necessary first of all to check the correctness of these balances. Irrespective of who performs the physical check of the stocks or stores themselves the accounting check of the stock record cards should be the responsibility of the internal audit service (see paragraphs 549-552). After the balances shown on the stock record cards have thus been checked the amount of each item in the store will be counted, weighed or otherwise measured to see that it corresponds with the balance as stated on the stock record card for the item.

504. As the final accounts for the year cannot be prepared until the results of all the stocktakings are known, arrangements should be made to ensure that the work is completed at, or very soon after, the end of the year.

505. In the case of the Central Medical Store and perhaps other large stores it will almost certainly be quite impracticable to wait until the end of the year before commencing the stocktaking. In these cases the work should be spread over as many of the last weeks or months of the year as will be required in order to complete the task by the end of the year.

506. When this is necessary the stocks of particular items, as ascertained at some date other than the end of the year, will be deemed, when adjusted by adding receipts and deducting issues between that date and the end of the year, to be the verified balance as at the last day of the year. In this way the process of stocktaking can be spread over as long a period as is necessary for its efficient performance.

507. The officer who performs the stocktaking will submit a report thereon to the Director-General. Subsequent action in connection with any shortages or discrepancies found by the stocktaking is dealt with in paragraphs 419-432.

PART II

Section 7 - Internal Audit

(See Note 17 of Part IV)

General

508. To complete the accounting arrangements described in the preceding sections and to ensure, as far as possible, that these arrangements will be properly carried out, an Internal Audit Service should be established. This service should be under the direction of an Internal Auditor, appointed by the Board and responsible to the Board. He should be a senior officer possessing high technical qualifications and wide experience in accountancy and administration, and should be provided with a staff adequate in numbers and technical competence to enable him to carry out the important duties assigned to him.

509. With regard to the status of the Internal Auditor in relation to that of the Head of the Finance and Accounting Division, there are different ways in which, in a social insurance organisation, this can be arranged. On the one hand, some countries give to the chief of the internal audit service the title and status of "Controller" of the whole accounting organisation, to whom the chief of the division which deals with the accounting work is subordinate. On the other hand, the internal audit service in other countries is simply one of the sections of the Finance and Accounts Division and the chief of the internal audit service is consequently subordinate to the head of the Finance and Accounts Division, who may have some such title as "Accountant-General".

510. The arrangement envisaged in paragraph 508 above, and the one which will be assumed in what follows, conforms with neither of these conceptions, but treats the chief of the internal audit service (who will be referred to henceforward as the "Internal Auditor") and the Head of the Finance and Accounts Division (henceforward to be referred to as the "Chief Finance Officer") as heads of separate divisions, each having direct access to the Director-General and neither being subordinate to the other. (The expression "internal auditor" (without capital letters) will be used to indicate "the appropriate officer of the internal audit service".)

511. At the same time, however, as stated in paragraph 508 above, the Internal Auditor will be directly responsible to the Board. He will, indeed, be obliged to submit to the Board, for consideration at each of its periodical meetings, a report on his audit to date and its results and will have the right and duty to send to the Board a copy of every report which he may make to the Director-General and which he considers to be of special importance. Thus if points arise on which there is disagreement between the Internal Auditor and the Finance and Accounts Division (or any other division) and which it has not been possible to settle at a lower level, the Director-General would normally give the final decision, but the Internal Auditor would have the right to appeal to the Board on any matter of importance on which he did not think it right to accept the Director-General's ruling.

512. Another important reason for giving the Internal Auditor the right to send to the Board a copy of any report which he considers to be of special importance is that if the Internal Auditor should at any time find reason to criticise any action or inaction of the Director-General himself, the Board would be put in a position to deal with the matter.

513. It is assumed, as indicated in paragraph 508, that the Internal Auditor will be provided with a staff, some of whom he may station at offices of sub-accountants, to act, under his direction, as the local internal auditor. The size of the social insurance organisation and the amount of decentralisation of the administration will determine the numbers and grades of staff required. If a subsidiary office is large enough to justify the employment of a representative of the Internal Auditor engaged full time on internal audit duties, the Internal Auditor may delegate to his local representative authority to settle minor audit points on the spot. The local internal auditor would, however, report to the Internal Auditor any points of greater importance for consideration and action at the Central Office.

514. Under the conception of the status and responsibilities outlined above, the duty of the Internal Auditor or any local representative is primarily to examine and report, and the responsibility for taking action on his reports rests, according to the degree of importance of the matter reported upon, on the local sub-accountant or manager, or a Head of Division or Department at the Central Office, or the Director-General, or - in the last resort - on the Board itself.

515. Within the framework described in the preceding paragraphs the main functions of the internal audit service will be:

- (a) to act as a preventive audit by examining and approving every payment voucher (FNI) before payment takes place;
- (b) to make a check of the financial operations, not limited to their arithmetical correctness, but covering also their admissibility under the Law and Regulations;
- (c) to test awards of cash benefit for conformity with the Law and the Benefit Regulations;
- (d) to check that all the income due to the Institution has been either received and brought to account, or written off as irrecoverable under proper authority;
- (e) to provide the means by which the Board can exercise effective budgetary control;
- (f) to examine and certify the monthly accounts submitted to the Central Office by sub-accountants of regional or local offices, hospitals, dispensaries, etc. as well as the monthly and annual accounts of the Institution as a whole;
- (g) to verify that the directions contained in the Code of Instructions, particularly those relating to the application of accounting controls and those designed to provide safeguards against error or fraud, are continuously observed and intelligently carried out.

516. With regard to the last-mentioned function, the Internal Auditor would at the same time be expected to look with a critical eye at these controls and procedures in order to bring to the notice of the Director-General and, if necessary, the Board, any weakness of organisation or wasteful administration he might find, and would be encouraged to propose any amendments of procedure by which such weakness might be remedied and the efficiency of the financial administration increased.

Check of Accounts

517. The internal audit service will be responsible for ensuring, as far as possible, by checks, tests, examinations, stocktakings or otherwise, that the accounts as presented are correct.

518. As mentioned in (f) of paragraph 515 above, this responsibility will cover also the monthly accounts to be submitted by subsidiary offices on Form FN17, and one or more officers of the internal audit service will be allocated to carry out at each subsidiary office the duties referred to in the previous paragraph. While they are working in a subsidiary office they will be responsible to the head of the subsidiary office for attendance and discipline generally, but will remain on the staff of the Internal Auditor, whose directions they will follow and to whom they will be responsible in respect of the technical side of their work.

519. In the preceding sections of this study a number of specific duties are laid down for the internal audit service to perform, e.g. as indicated in the internal audit certificates to be signed on Forms FN1, FN3, FN4, FN7, FN14, FN15, FN17, FN23 and other forms in the FN series. These cover the essential, day-to-day tasks of the internal audit.

520. Apart from these day-to-day tasks it is not proposed to prescribe in this section a fixed programme of other duties and checking which must be carried out. Any such additional duties and checks would depend on factors such as the quality of the accounting work to be examined, the extent, if any, to which it is mechanised (see Note 16 of Part IV), the complexity of the particular social insurance scheme, the audit staff available, etc.

521. Mechanisation of the accounting scheme or any part of it would, for example, alter, and probably simplify the work of the internal auditor. Instead of checking individual entries in the accounts and verifying additions and subtractions, his principal concerns would be (1) to see that all items had been included in the mechanised postings, and (2) to satisfy himself that the postings had been proved by the agreement of certain control totals mechanically produced. He would not have to check the arithmetic of the accounts.

522. Since flexibility and an imaginative approach must be the keynotes of the work of any good auditor, all that will be done in this section is to add some notes on certain parts of the audit work and to indicate in general terms the methods to be used and the mental attitude to be adopted by members of the internal audit staff.

523. Cash checks. Certain checks, particularly those relating to cash, must be thorough. For example, it is not sufficient when making a count of the cash, cheques, etc. in the cashier's safe merely to check that the contents of the safe correspond with the balance as shown by the cash columns of the cash book. It is of equal importance to check that the balance of the cash book is what it ought to be - that is, that all income has been accounted for in the cash book (there must be no gap, for example, in the printed serial numbers of the blue copies of the receipts), that every payment is adequately vouched, and that the addition of the cash columns is correct. A fraudulent cashier would be likely to make certain by one device or another that on the face of it the cash book was correct and that the balance of cash, cheques, etc. in the safe corresponded exactly with the balance as shown by the cash book.

Selective Tests

524. While certain parts of the work, such as the check of cash transactions, and entries in cash books (referred to in the preceding paragraph) must be performed by checking all the items within the particular period - i.e. by a 100 per cent. check - certain other parts may be subjected to a test audit by a check of a proportion of the items selected at random. Examination of the entries of issues on stock record cards might, for example, be performed by test of a predetermined percentage selected in this way.

525. Another way of carrying out a test audit might be to select from the whole field of items to be tested certain types of transaction only. If awards of benefit are to be examined by the method of testing a proportion of the items, it might, for example, be a good plan to select those types of award which previous experience has indicated as most likely to show errors or to be of doubtful admissibility.

526. Where there are large blocks of transactions of a particular type to be audited (other than cash transactions and entries in cash books - see paragraph 524 above) the effectiveness of the audit can probably be increased and the available audit staff deployed to the best advantage by using the method of selective tests. Under this method the direction and extent of the tests can be varied from time to time, and the proportion of the whole field checked need not be the same for all types of items. These proportions should, in fact, be changed as circumstances require - increased where mistakes are found to be frequent and decreased where mistakes are found to be few.

527. Where the method of test is adopted, the first duty of the auditor, and one which is of the greatest importance, is to ensure that he receives all the documents to be tested, so that he can be certain that the particular documents to be examined in detail are selected from the whole field, and that no vouchers, etc. which someone, for his own reasons, does not wish the auditor to see, are purposely diverted from his scrutiny.

528. There are dangers which must be guarded against in both the 100 per cent. check and the method of audit by selective tests. In the case of the former the danger is that the performance day by day of a check of every item may tend to become a matter of unimaginative routine, and that as a consequence important general aspects indicating weaknesses may be missed. The auditor may see only the trees and miss the forest.

529. The main danger in the method of selective tests is, of course, that errors or frauds may slip through among the items not examined. This danger can to some extent be lessened by keeping secret the percentage being examined - it will be remembered that in any event the auditors must receive all the documents to be tested (see paragraph 527) - by varying this percentage from time to time, and, if different types of transaction are being selected for examination in successive weeks or months, by arranging to cover the whole field in the course of a definite period, say six months or a year.

530. Given that cash transactions and cash books must be checked 100 per cent., the application of selective tests to the other parts of the field to be covered will probably make the best use of the audit staff available. If wisdom and shrewdness are shown in the selection of items for examination and if the examinations are carried out with alertness and imagination the effectiveness of the audit should be at the maximum.

Payments

531. Payments of cash benefits. As explained in Part II, paragraphs 244-249, the pre-payment check of awards of cash benefits should, if the staff resources of the internal audit service permit and if it is otherwise practicable, be performed by a member or members of that service. Alternatively, if the pre-payment check of awards is done by a second member of the awarding section, the internal auditor should nevertheless see and sign the payment schedules (both copies) before they are sent to the cashier for payment.

532. In that event the internal auditor would select, from the payment schedules, individual awards to be checked in detail, after payment had been made, back to the original documents on which the award was based. The proportion to be checked would depend on the audit time allocated to the work by the Internal Auditor, which, in turn, would depend mainly on the quality of the awarding work and the resources of audit staff available.

533. If the method of post-payment test is to be applied it will probably be found to be worth while to allocate a substantial proportion of the time of the internal auditor at a regional or local office to this part of the work - subject, of course, to review in the light of the results of the examination. In connection with this test examination of the admissibility and correctness of payments of cash benefits the general principles set forth in paragraphs 524-530 above are particularly applicable.

534. Thus the internal auditor should not only be on the look-out for errors - arithmetical or otherwise - in individual awards, but should at all times keep his eyes open to the possibility of general points of principle emerging from individual errors.

535. Salaries and wages. Other types of payment will be tested in accordance with similar principles. Salaries and wages should be checked back to the record cards of individual employees and tests should be made, by reference to the files held by the Staff Services Division, to ensure that the information on the record cards is kept up to date.

536. If the staff, or certain grades, are covered by the social insurance scheme, tests should be made to check that employees' social insurance cards have been properly stamped up to date and that stamped cards are in existence for all employees covered. When collection of insurance contributions is by the payroll method, check of payment of contributions will be part of the check of the weekly or monthly payrolls and the accounting transfers required in connection therewith - in particular, the debits to "Salaries" and the corresponding credits to "Income from Insurance Contributions".

537. Payments for stores. These should be tested back to the terms of the contract made with the supplier. At the same time, the correctness of the reference on the payment-voucher to the goods having been taken on store charge should be verified by inspection of the relevant stock record card (FN19) or inventory book (FN21).

Income

538. With regard to income the auditor should always bear in mind that the important factor is not the income which is received but the income which is not received but should be. Thus it is particularly important that a routine attitude to this part of the audit should be avoided.

539. The possibility of fraud is usually greater in connection with receipts than in connection with expenditure and the auditor should endeavour to view the situation from the point of view of a person fraudulently inclined. He will thus best be able to assess the value of the safeguards provided by the existing arrangements and practice.

540. One of the more obvious methods of obtaining money due to the Institution but not bringing it to account is to obtain possession of official receipt forms otherwise than from a pad currently in use, and to use them as the receipts for the income to be stolen. Thus control of receipt forms should be watertight and the auditor should give high priority to tests of the Register of Controlled Documents.

541. Employers in arrears. In connection with the receipt of income from contributions, the auditor might with advantage call for a recent batch of inspectors' reports, and in cases of non-compliance satisfy himself that the procedure described in paragraphs 402-418 has been properly

applied and that an account has been opened in the "Employers in Arrears" ledger. He should see that either the cases have been reported for legal action to enforce payment, or an arrangement for settlement of the debt by instalment payments or otherwise is being carried out. If an undertaking to pay by instalments has been accepted and in consequence the case has not been referred for legal action, and if the employer has failed to carry out the undertaking, the auditor should verify that legal action has then been invoked, or, alternatively, that the case has been submitted for authority to write off the debt outstanding.

Bank Reconciliation Statement

542. The importance of a completely independent reconciliation of the differences that will usually be found between the balance of the bank account as recorded in the cash book and the balance shown on the statement of account as received from the bank is discussed in paragraphs 344-347. As a precaution against any attempt by the cashier to cover up fraudulent operations on the bank account by manipulating the bank reconciliation statement, it is desirable, as stated in paragraph 346, that an arrangement should be made whereby the bank will send the periodical statements of account direct to the internal auditor and the latter will compile the reconciliation statement.

543. This arrangement should be made both in connection with the bank at which the central office account is kept and the banks, or branches, at which the various sub-accountants keep their accounts. In the case of the latter, the periodical statements of account would be sent to the local representative of the Internal Auditor.

544. On the assumption that this will be done, Form FNL7, the form on which sub-accountants submit their monthly accounts to the Central Office, contains, in Part IV of the form, a bank reconciliation statement for the bank used by the sub-accountant, which is to be prepared by the internal auditor, who is required to certify, in Part V of the form, that he has done so and that he is satisfied that it gives a true reconciliation.

545. As emphasised in paragraphs 523 and 524 above, checks of the cash book should be 100 per cent. checks - it is not desirable to use the method of checking by percentage test for this part of the internal auditor's work. The check of the cash book which precedes the compilation of the bank reconciliation statement should therefore be a thorough

one, and when the internal auditor has compiled the bank reconciliation statement he should be specially on his guard against any specious explanation that may be given by the cashier to account for any discrepancy.

Budgetary Control

546. One of the functions of the internal audit service referred to in paragraph 515 above is to provide the means by which the Board can exercise effective budgetary control. The monthly accounts will classify income and expenditure under the heads used for the budget as approved by the Board, and thus the Board will be able to follow month by month during the year the progress of income and expenditure in relation to the amounts in the annual budget as approved, but this control is not sufficiently up to date since at the best it can only be exercised two or three weeks after the last of the transactions recorded in the accounts have been carried out. Continuous supervision on behalf of the Board is therefore required, and the internal auditor will be charged with this duty.

547. As regards payments, he will keep in touch day by day with the progress of expenditure, and his certificate on Part IV of each payment voucher, to the effect that he is "satisfied as to the admissibility ... in all respects of the amount payable ..." will be deemed to include his being satisfied that provision for the payment has been made in the budget for the year as approved by the Board, and that the provision has not been exhausted. It should be noted that when certain types of expenditure take place at more than one accounting unit or sub-accounting unit of the Institution, and where, consequently, the budget provision under any head has been apportioned between these units - see paragraphs 793-794 - the local representative of the Internal Auditor will be responsible for watching the progress of expenditure in relation to the amounts thus apportioned to the particular unit and for reporting to his chief at the Central Office if the need arises. This should be done sufficiently early to prevent the budget apportionment to the unit from being exhausted before authority for a supplementary apportionment can be obtained (see paragraphs 795-796).

548. If ever it appears likely that expenditure by the Institution as a whole under a particular budget head will require to be exceeded before the end of the year, or that

income under a particular head is likely to fall significantly short of the budget estimate, the Internal Auditor will make a special report to the Board as soon as the likelihood becomes clear. The Board will thus be enabled to authorise an increase in the relevant budget provision or give such other directions as it may consider desirable.

Stocktaking

549. The part which the Internal Auditor will play in connection with the stocktakings which must take place annually is referred to in paragraph 502. The essential requirement is that he should control the operation, whether or not he or a member of his staff actually performs the stocktaking.

550. In any case the correctness of the balances as shown on the stock record cards must first be checked, and that will be the responsibility of the internal auditor. If the stock record cards have been hand-written, vouching of the postings from entry notes, delivery notes, requisitions or prescriptions might be done by means of a percentage test examination, but additions and subtractions should be checked completely.

551. If, however, the stock records have been mechanised (see paragraphs 495-500) the task of the auditor will be simplified. His principal concern in that case will be to satisfy himself that the mechanised postings have been properly proved, and for this purpose he should examine the agreement of the "pre-list" and "summary sheet" totals relating to the posting of each batch of items. (If this can be done throughout the year, so much the better.)

552. If he is satisfied on this point he will check that all receipts, as evidenced by entry notes or delivery notes, have been included in the mechanised postings to the Receipts side of the stock record cards. As regards issues, it may be sufficient to test that a proportion (selected at random) have been properly included in the mechanised postings to the Issues side. It will not be necessary to check the arithmetical correctness of the balances.

553. Whether or not the stock records have been mechanised the internal auditor should ensure that the count or other physical check of the goods in store is performed entirely independently of the storekeeper.

554. For the action that requires to be taken if losses or deficiencies are brought to light, reference should be made to paragraphs 419-432.

Losses

555. In connection with losses (including overpayments) generally, the internal auditor's chief duty will be to verify that as soon as a loss comes to light, in whatever way this may happen, the amount of the loss, or an approximate amount if the precise amount cannot at the time be determined exactly, is debited to a Losses Suspense account. This is the essential requirement for the establishment of accounting control over losses.

556. Thereafter the internal auditor will satisfy himself that the procedure described in paragraphs 419-432 is duly carried out. He will examine the balances of the Losses Suspense accounts from time to time and bring to notice any cases where there seem to be unreasonable delays in clearing the suspense account balances either by recovery of the amount of the loss or by write-off, under proper authority, to Losses account.

Monthly and Annual Accounts

557. The work of the local representatives of the Internal Auditor will be completed in the monthly accounts which will be submitted to Central Office by sub-accountants on Form FN17, and that of the Internal Auditor in the monthly accounts of the Institution as a whole; and, later, the annual accounts, which will be prepared and submitted by Central Office.

558. Form FN17 contains, in Part V, a certificate for signature by the local representative of the Internal Auditor. A certificate similar to the first part of that certificate should be given by the Internal Auditor on the monthly accounts of the Institution. It will be seen that if any internal auditor is able to give a clear certificate that the accounts are correct he will delete the part of the certificate in square brackets, which refers to his observations contained in a separate report. If he desires to qualify his certificate in any way or to bring to notice any matter bearing directly or indirectly on the accounts, he should take advantage of the opportunity thus provided to attach a separate report on the matter.

559. The final annual accounts will be certified by the external auditor and the Internal Auditor's certificate should, therefore, be given separately.

560. In examining the final annual accounts the internal auditor should give special attention to checking additions and carry-forwards. He should also check specially the end-of-year adjustments. He will in any case have certified the accounting transfers authorised on Form FN4, but must make a point also of asking himself whether all the accounting transfers required have in fact been made.

Powers

561. It should be made clear, if necessary by an instruction issued by the Director-General, that the Internal Auditor or his staff have authority to call for any books, registers, files, official correspondence, papers, certificates or other documents irrespective of whether they are kept by Finance and Accounts Division or not, and irrespective of whether they relate specifically to the accounts. Moreover, it should be made clear that neither the Internal Auditor nor any member of his staff would be required to state why he wished to refer to the documents in question.

General

562. The aim of the Internal Auditor and his staff should be to provide a service which the Board, the Director-General and the senior administrative officers of the Institution will value. From this point of view, it may be important not only to find individual and, it may be, isolated errors, but also to draw attention to general weaknesses and points where it is thought that procedure or practice could be improved and the efficiency of the administration increased.

563. An auditor should be at all times courteous and considerate, and, as far as possible, should study the convenience of the officials whose books and records he wishes to examine. He should, however, be on his guard ~~last~~ by pleading inconvenience an interested party may effectively side-track a particular inquiry or investigation which the auditor wishes to make. A certain amount of firmness, courteously applied, may be called for.

564. It is important that a member of the staff of the Internal Auditor should not remain too long on the same work and that there should be fairly frequent changes of duty among the internal audit staff. The proverb that a new broom sweeps clean has particular force in the sphere of audit.

PART II

Section 8 - Draft Financial and Accounting Regulations

(See Notes 1, 2, 4, 5, 6, 7, 8, 11,
12, 13, 14 and 17 of Part IV)

Chapter 1 - Foreword

565. This section completes the plan of accounting dealt with in Part II by including a draft which, it is hoped, will suggest the kind of financial and accounting regulations that may be required.

566. Since regulations are usually made, or at any rate approved, by a minister, after they have been discussed and approved by the Board or other governing body, there should be included those fundamental requirements which it is desirable to establish in such a way that they cannot be altered by the action of the Director-General alone.

567. Such matters might include provisions for:

Budgetary control by the Board;

Definition of the financial powers of officials;

Rates of depreciation of the fixed assets;

Creation of reserves and their investment;

Write-off of losses, deficiencies and over-payments only with the authority of the Board;

Form of the annual accounts;

Internal audit (it is assumed that an external audit will be provided for in the Law).

568. Other matters may be introduced, such as arrangements for opening bank accounts, but it is desirable in the interests of flexibility to include in the Regulations essential matters only, leaving other matters to be covered in the Code of Staff Instructions. Thus the draft Regulations contained in Chapter 2 deal only with the essential directions which the Director-General and the Institution must obey.

569. The drafting of the articles of the Regulations which deal with estimates and accounts will depend, to some extent, on whether the Law has provided for separate accounts to be compiled for the different branches of insurance (see paragraphs 206-207) and, if so, whether "administration" is to be regarded as a separate "branch". As explained in paragraph 832, it is a valuable simplification, where separate accounts are required for the different branches, if this can be done, and administration can be treated as a branch on its own.

570. Where separate accounts for the different branches of insurance are required, it will usually be sufficient, for the purpose of showing the results of the year's operations, to sectionalise only the Income and Expenditure Accounts (and the Capital Expenditure Account, if appropriate) and not to provide sectionalised balance sheets for the separate branches. There would usually be little advantage in doing so since the separate balance sheets would be likely to contain an element of artificiality in view of the need to make a number of more or less arbitrary apportionments of assets or liabilities common to more than one branch (e.g. cash, sundry debtors, sundry creditors, etc.). It would be only if the Law prescribed the keeping of separate insurance funds for the different branches that separate balance sheets would be necessary.

571. The Regulations as drafted contain alternative drafts to cover the submission of separate income and expenditure accounts and capital expenditure accounts, but not separate balance sheets. If separate branch balance sheets are required or desired the draft can be easily amended accordingly.

Chapter 2

Draft Social Insurance Financial and Accounting Regulations, made under Section ... of the Social Insurance Law, No. ... of 196...

Definitions

572. [This Article would provide formal definitions of terms referred to in abbreviated form in the Regulations, e.g. "the Law", "the Board", "insurance contributions", etc. Definitions might also be given of such terms as "payment voucher" (any document by which a cashier is authorised to make a payment), "accounting transfer authority", etc.]

Estimates

(See Note 2 and Note 8 of Part IV)

573. Before the thirty-first day of October of each year [or the corresponding date if the financial year does not begin on 1 January] the Director-General shall submit to the Board for their approval [separately for each branch of insurance and for the cost of administration] estimates of the income and expenditure expected to be received or incurred in the financial year beginning on the first day of January next following, including capital expenditure, which shall be shown separately.

574. These estimates shall be made under the heads shown in the Appendix to these regulations, and shall be accompanied by a memorandum giving full explanations of any variations of the amounts expected to be received or spent as compared with the corresponding amounts included in the approved estimates of the current year, and of any expected receipts or expenditure of a type not included in the approved estimates of the current year. The memorandum shall also state how it is proposed to finance capital expenditure included, whether out of current income, accumulated reserves or otherwise.

575. The Board may add to or otherwise alter the heads under which the estimates are to be submitted to them, and may require information relating to the make-up, calculation, or reasons for inclusion of any item or items in the estimates as submitted.

576. The estimates submitted in accordance with the preceding articles, as and when approved by the Board, shall show the income which the Institution is expected to collect and shall set limits to the expenditure which the Institution is authorised to incur under each of the relevant heads. Expenditure shall not be incurred under any head in excess of the limit set for that head without the previous approval of the Board.

577. If the estimates to be submitted to the Board for their approval under the preceding articles have not been approved by the Board before the beginning of the year to which they relate, the Institution shall be deemed to have authority, for each complete month of that year up to and including the month in which the estimates for that year are approved by the Board, to incur expenditure, under each of the heads included in the estimates of expenditure as approved by the Board for the previous year, which shall not exceed one-twelfth of the amount thus approved for each of those heads.

Accounts

(See Note 1 of Part IV)

578. The Institution shall open accounts for each of the heads under which the estimates of income and expenditure, as approved by the Board, have been arranged, and such other heads or subdivisions of heads as may be necessary, and shall record therein, by the double-entry system of book-keeping, the financial transactions of the Institution.

579. At the end of each month the accounts as a whole shall be balanced and an Income and Expenditure Account, a Capital Expenditure Account and a Balance Sheet shall be prepared and submitted to the Board not later than the tenth day of the following month. The Income and Expenditure Account and the Capital Expenditure Account shall show, under each head of the estimates, as approved by the Board, the income accrued and the expenditure incurred from the beginning of the financial year to the end of the month to which the

accounts relate, and the Balance Sheet shall show the liabilities and assets of the Institution as at the end of that month. [If required, this Article would be amended to provide for separate income and expenditure accounts and capital expenditure accounts for each branch of insurance and for administration, and for a consolidated income and expenditure account and a consolidated capital expenditure account for the Institution as a whole, with a balance sheet for the Institution as a whole.]

Financial Provisions relating to Staff

580. A list shall be drawn up which shall contain the names of such of the officers of the Institution as, from time to time, shall be authorised to approve payment vouchers, sign cheques, approve accounting transfers or exercise other similar functions, and the list shall state such limits, financial or according to type of transaction or otherwise, as the Board may approve, within which each officer whose name appears on the list shall be authorised to exercise the function or functions allotted to him.

581. Insurance by way of fidelity bond or other similar security shall be arranged by the Institution, giving cover, up to such amounts as may be approved by the Board, against the risk of defalcation by the cashiers, storekeepers or other custodians of the property of the Institution.

Losses, Deficiencies and Overpayments

(See Note 11 of Part IV)

582. If any loss, deficiency, or overpayment comes to light and the amount of the loss, deficiency, or overpayment cannot be recovered, the authority of the Board shall be required to charge such amount in the Income and Expenditure Account, and the Board shall not grant such authority unless it is satisfied that adequate investigation has been made into the causes of and responsibility for the loss, deficiency, or overpayment and that steps have been taken as far as possible to prevent the occurrence of similar losses, deficiencies, or overpayments in the future.

Depreciation

(See Note 4 of Part IV)

583. At the end of each financial year provision shall be made for depreciation of the fixed assets of the Institution at the following rates:

Buildings	2 ¹ / ₂ per cent.
Office furniture and equipment	5 ¹ / ₂ per cent.
Medical equipment	7 ¹ / ₂ per cent.
Motor vehicles	20 per cent.

or at such rates as the Board may from time to time approve7.

584. Unless otherwise determined by the Board in relation to assets the value of which falls more rapidly in the early than in the later years of their effective life, equal amounts of depreciation shall be charged each year in respect of each asset.

Reserves and Investments

(See Note 5 of Part IV)

585. The immediate cash requirements of the Institution shall be met by retaining on bank current account an amount of cash which shall be not less at any time than the average expenditure of the Institution on the provision of benefits and on administration for one month7.

586. A Contingencies Reserve shall be established, to be available to meet any unforeseen or abnormal expenditure which the current income of the Institution may not be sufficient to cover, or to make good any unforeseen or abnormal reduction of income. The Contingencies Reserve shall be formed by transferring thereto any moneys surplus to the amount required for compliance with the requirements of the preceding Article, and shall be accumulated to an amount equivalent to the average expenditure of the Institution on the provision of benefits and on administration for two months7.

587. The moneys transferred to the Contingencies Reserve shall be invested in investments which are liquid or easily realisable at short notice.

588. Any moneys surplus to the amounts required to comply with the provisions of [paragraph 585] and to establish and maintain the Contingencies Reserve provided for in [paragraph 586] may be transferred to a Development Fund, to be available to enable the Institution to finance the acquisition, construction, extension, adaptation or provision otherwise of any assets in the nature of premises, or equipment having an estimated life of not less than five years, by the use of which the services provided by the Institution may be improved.

589. The moneys transferred to the Development Fund shall be invested in short-term, medium-term or long-term investments as may be desirable in relation to the probable dates at which it may be necessary to realise the investments to finance such projects of development.

590. If at any time the amount of the Development Fund shall be deemed sufficient to finance any such future projects of development as may be regarded as necessary or desirable, any moneys surplus to the amounts required to comply with the provisions of [paragraphs 585 and 586] shall be placed in investments selected in accordance with the provisions of [paragraphs 592, 593 and 594].

591. The approval of the Board shall be required for any investment made under these Regulations and for any sale, realisation, exchange or disposal otherwise of any investment, or any withdrawal of moneys deposited or loaned by way of an investment. Any reinvestment of the proceeds, in whole or part, of such sale, realisation or withdrawal shall be subject to compliance with the provisions of these Regulations.

592. In approving investments the Board shall have regard, firstly, to the safety of the investment; secondly, to the maintenance of the real value of the investment and of the income to be derived from it; and thirdly, to the amount of income to be derived from it. Where, in relation to the purpose of an investment, it is important that the investment shall be realisable at short notice, the additional factor of liquidity shall be regarded as essential.

593. In equal conditions of safety, maintenance of real value, and yield, investments shall be preferred which will assist, directly or indirectly, the wellbeing of the community by the improvement of health conditions or housing, the development of natural resources, the creation of new means of production or the furtherance in any other way of the social and economic policy of the Government.

594. [(See paragraphs 975-976 of Note 5 of Part IV,) If in the light of investment conditions in the particular country and the types and volume of investments available it is desired to place any limitation on the kinds of investments to be selected, or to prescribe maximum or minimum proportions of the holding to be represented by any particular kinds, an article or articles embodying the restrictive provisions might be inserted at this point.]

[595 (See paragraphs 977-979 of Note 5 of Part IV; if it is desired to provide for the vesting of the investments of the Institution in trustees, an article on the following lines might be introduced):

The investments of the Institution shall vest in Trustees who shall consist of [or who shall be appointed by the Minister] and the signatures of the Trustees shall be required for the implementation of any purchase of any investment or the making of any deposit, loan or other application of any moneys of the Institution by way of an investment, and for the implementation of any sale, realisation, exchange or disposal otherwise of any investment or any withdrawal of moneys deposited or loaned for the purpose of an investment.]

Form of Annual Accounts to be Presented

(See Notes 6, 7, 11, 12, 13 and 14 of Part IV)

596. As soon as practicable after the end of the financial year the final accounts for the year shall be prepared. These shall take the form of an Income and Expenditure Account for the year, a Capital Expenditure Account for the year, and a Balance Sheet as at the end of the year, and shall be accompanied by such other accounts or statements, whether of cost-analysis or otherwise, as the Board may require, and by a report which shall be prepared by the Director-General on the financial operations of the Institution during the year.

[Alternative article - As soon as practicable after the end of the financial year the final accounts for the year shall be prepared. These shall take the form of an Income and Expenditure Account for the year and a Capital Expenditure Account for the year for each branch of insurance and,

separately, for administration, a Consolidated Income and Expenditure Account for the year and a Consolidated Capital Expenditure Account for the year for the Institution as a whole, and a Balance Sheet as at the end of the year for the Institution as a whole. These shall be accompanied by such other accounts or statements, whether of cost-analysis or otherwise, as the Board may require, and by a report which shall be prepared by the Director-General on the financial operations of the Institution during the year.]

597. The Income and Expenditure Account [or Accounts] shall show, on the Income side, the income for the year, as follows:

- (i) the total value of insurance stamps sold to employers during the year [the income of the branch of insurance from the sale of insurance stamps to employers during the year] [or (where collection of contributions is by the pay-roll method) the total amount received from employers during the year in respect of insurance contributions]

- to which shall be added a footnote to the Account [to the Income and Expenditure Account for administration] which shall state the total amount of insurance contributions established during the year as due from employers but which remained unpaid at the end of the year, the proportion (if any) of this amount which has had to be written off for any reason as irrecoverable, and the balance with regard to which efforts are continuing to be made to secure payment;

- (ii) [where appropriate] the Government contribution for the year; [the income of the branch from the Government contribution for the year]¹;
- (iii) the interest, rents, or other income in respect of the year derived from the investments and other assets of the Institution, the different types of income being shown separately;

¹ Similarly, as required, in the remaining parts of this Article and of the two following articles.

- (iv) any other income, its nature to be stated;
- (v) the balance, if a debit balance, transferred to the Social Insurance Fund.

598. The Income and Expenditure Account shall show on the Expenditure side the expenditure for the year, as follows:

- (i) the total amount of cash benefits awarded during the year, the amounts of each type of benefit being shown separately;
- (ii) the total amount of insurance contributions refunded during the year in accordance with the Social Insurance Contributions Regulations;
- (iii) the total expenditure, other than capital expenditure, incurred during the year on the provision of medical care, the expenditure under each of the heads used in the estimates of expenditure relating to the provision of medical care as approved by the Board (other than those relating to capital expenditure) being shown separately;
- (iv) the total expenditure incurred during the year on administration, other than capital expenditure, the expenditure under each of the heads used in the estimates of expenditure relating to administration as approved by the Board (other than those relating to capital expenditure) being shown separately;
- (v) [if required] the total expenditure incurred during the year on the maintenance of properties let, the expenditure under each of the relevant heads of the estimates of expenditure as approved by the Board being shown separately;
- (vi) the amounts transferred during the year to the Contingencies Reserve and, if applicable, to the Development Fund, the amounts transferred to each of these reserves being shown separately;
- (vii) the total amount of any losses, deficiencies, or overpayments which the Board has authorised to be charged;
- (viii) the amount, if any, written off the Preliminary Expenses Account during the year;
- (ix) the balance, if a credit balance, transferred to the Social Insurance Fund.

599. The Capital Expenditure Account shall show, under each of the heads used in the estimates of capital expenditure for the year as approved by the Board, the total capital expenditure incurred during the year, the expenditure on different projects of construction, purchase, adaptation, etc., of buildings being shown separately.

600. The Balance Sheet shall show, on the Liabilities side, the liabilities of the Institution as at the end of the financial year, under the following heads and arranged in the following order, or under such other heads and arranged in such other order as the Board may direct:

- (i) amounts unpaid in respect of cash benefits awarded during the year and not yet cancelled as time-expired;
- (ii) amounts due to other creditors;
- (iii) the amount of the Contingencies Reserve;
- (iv) the amount, if any, of the Development Fund;
- (v) the amount of the Social Insurance Fund, which shall be shown in the following manner; the amount of the Fund at the beginning of the financial year shall be stated, to which shall be shown as added any excess of income over expenditure as shown by the Income and Expenditure Account for the year, or from which shall be shown as deducted any excess of expenditure over income as shown by the said Account, and the amount of the Social Insurance Fund at the end of the financial year shall thus be arrived at.

601. The Balance Sheet shall show, on the Assets side, the assets of the Institution as at the end of the financial year, under the following heads and arranged in the following order, or under such other heads and arranged in such other order as the Board may direct:

- (i) cash in hand;
- (ii) balances on current account at banks;
- (iii) any balances on deposit account at banks;
- (iv) any amounts due from sundry debtors;

- (v) investments, different types being shown separately;
- (vi) stocks of pharmaceutical products, medical appliances, X-ray films and other medical supplies;
- (vii) medical equipment;
- (viii) office furniture and equipment;
- (ix) motor vehicles and ambulances;
- (x) any unexhausted expenditure carried forward for example, on printing, forms, stationery, etc;;
- (xi) office buildings;
- (xii) hospitals, dispensaries and other premises used in connection with the provision of medical care;
- (xiii) preliminary expenses, in so far as such have not been written off.

The fixed assets shall be shown at the figure at which they appeared in the Balance Sheet as at the end of the previous year, to which shall be shown as added the cost of any additions during the year, and from which the amount of depreciation charged during the year shall be shown as deducted, the net amount thus being stated.

Internal Audit

(See Note 17 of Part IV)

602. An internal audit service shall be established under the direction of an internal auditor, who shall be appointed by and shall be responsible to the Board.

603. The internal audit service shall have the following functions, in addition to such others as the Board may from time to time require it to perform:

- (i) to act as a preventive audit by examining and certifying as approved every payment voucher and every accounting transfer authority before the payment or the accounting transfer is made, and by approving the bringing to account of every receipt;
- (ii) to test awards of cash benefits for regularity and conformity in all respects with the Law and the Benefit Regulations;
- (iii) to check that all income due to the Institution has been either received and brought to account or written off as irrecoverable with the authority of the Board;
- (iv) to assist the Board in the exercise of budgetary control by maintaining a continuous review of the progress of income and expenditure, and reporting to the Board whenever it appears likely that the income under any head of the estimates as approved by the Board will fall short, or the expenditure under any such head will exceed the amount stated in the approved estimates;
- (v) to examine and certify the correctness of the accounts submitted periodically to the Central Office by sub-accountants of local or regional offices, hospitals, dispensaries or other sub-accounting units, and the periodical accounts of the Institution as a whole, including the final accounts for the year, as prepared at the Central Office;
- (vi) to exercise a check on the continuous observance and intelligent carrying out of the directions contained in the code of staff instructions, particularly those designed to facilitate accounting controls or provide safeguards against error or fraud.

604. The Internal Auditor and the members of the staff of the internal audit service shall have authority to inspect any files, registers, documents, vouchers or other papers, whether kept by the Finance and Accounts Division or any other division.

605. The Internal Auditor shall have the right of direct access to the Director-General, to whom he shall report, at the same time sending to the Board a copy of any report which he deems to be of special importance.

606. In addition, he shall submit to the Board, for consideration at each of its periodical meetings, a report on his audit to date and its results.

APPENDIX

Heads under which Estimates of Income and Expenditure are to be submitted to the Board under Articles 2 and 3 paragraphs 573 and 574

INCOME

Insurance contributions

[Government contribution]

Income from Investments

Interest on deposits or from fixed-interest securities

Rents from properties let

Other income from investments

Any other income.

EXPENDITURE (Other than Capital Expenditure)

Provision of Medical Care

Salaries and allowances of medical and para-medical staff

Running expenses of hospitals, dispensaries and other premises used for the provision of medical care

Cost of pharmaceutical products, medical appliances, X-ray films and other medical supplies consumed

Running expenses of ambulances

Payments under agreements for the provision of medical care

Other expenses of the provision of medical care.

Cash Benefits

Sickness benefits
Maternity benefits
Injury benefit
Total disability benefit
Partial disability benefit
Survivors' pensions
Funeral grant.

Administration

Salaries and allowances of administrative staff
Allowances and expenses of Social Insurance Board
Running expenses of administrative offices
Running expenses of motor vehicles other than ambulances
Other expenses of administration
Maintenance of properties let
Refund of insurance contributions.

CAPITAL EXPENDITURE

Investment

Deposits
Purchase of fixed-interest securities
Other investments.

Purchase of

Pharmaceutical products, medical appliances, X-ray films and other medical supplies

Furniture and equipment for hospitals, dispensaries and other premises used for the provision of medical care

Furniture and equipment for office premises

Ambulances

Other motor vehicles

Construction, Purchase, Adaptation, etc. of

Hospitals, dispensaries and other premises for use
in the provision of medical care

Office premises.

PART III

Accounting Code

Section 1 - Foreword

701. This part is concerned with the accounting, including book-keeping, which requires to be performed by a Finance and Accounts Division. It deals with the accounts to be opened, the ledgers in which they are to be kept, the entries to be made, and the preparation of monthly and annual accounts.

702. The ledgers and accounts will be suitable for the kind of model scheme of social insurance which was envisaged in the preparation of the Handbook on Methods and Procedures and which has been made the basis of the accounting procedures dealt with in Part II of this study. For the purpose of explaining in some detail the book-keeping entries required, it is necessary to assume that the scheme will contain certain definite provisions regarding contributions and benefits and will be administered in certain definite ways - these assumptions are stated in paragraphs 204-211.

703. The book-keeping and accounting arrangements will, however, cover a number of alternative methods of administration where that can conveniently be done. Otherwise they should, it is hoped, be capable of easy adaptation to meet the needs of schemes containing somewhat different features and administered in other ways.

Financial and Accounting Regulations

704. The Accounting Code dealt with in this part will be of the nature of Staff Instructions, to be issued by the Director-General and capable of amendment at any time by him. There will, however, be certain matters relating to finance and accounting which are of sufficient importance to require the approval of the Board, e.g. provisions relating to budgetary control by the Board, the rates of depreciation to be used for the fixed assets, the creation of reserves. Such matters as these should be dealt with in Regulations approved by the Board and not capable of amendment without the authority of the Board. A draft of the kind of Financial and Accounting Regulations that might be suitable is contained in paragraphs 572-606 and Appendix.

Code Numbers of the Accounts

705. For ease of reference and to provide an abbreviated method of referring to the different accounts - which is essential for noting on payment vouchers, receipt forms and transfer forms the accounts to be debited or credited - it is necessary to give code numbers to the accounts. One method would be simply to number the accounts consecutively; another to run a separate series of consecutive numbers for each ledger, e.g. E/12 for an account in the Expenditure Ledger, B/4 for an account in the Benefits Ledger, and so on.

706. A method sometimes used is to number the accounts by a system of notation which will indicate the nature of the account. As explained briefly in paragraphs 908-910 of Note 1 of Part IV on the double-entry system of book-keeping, the balances of certain accounts are transferred at the end of an accounting period to the Income and Expenditure Account, and the balances of the other accounts are shown in the Balance Sheet. Code numbers can be allocated in such a way as to show at a glance whether the balance of the particular account will ultimately find its way into the Income and Expenditure Account or the Balance Sheet and also whether the balance of the account is normally a debit or a credit balance or can be either.

707. A trained accountant does not require this information; to him it will be entirely superfluous. As, however, the accounts have to be numbered in some way, it may be an advantage to adopt a method such as this which could be of assistance in the training of recruits to the accounting staff who come without any previous knowledge of accounting. It may also help inexperienced staff to avoid elementary errors.

708. If a system such as the one referred to is used, there are many ways in which the accounts could be numbered. As an example and for reference purposes only the following one has been selected. Numbers 01 to 49 would be given to accounts whose balances will be carried to the Income and Expenditure Account, which itself is numbered 50, and numbers 51 to 99 to accounts whose balances will be shown in the Balance Sheet. The units figure would be odd if the account has normally a debit balance, and even if the account has normally a credit balance. In the case of accounts whose balance may be either a debit or a credit balance the units figure would be zero.

709. These numbers refer to main accounts or groups of accounts.

Examples:

<u>Name of Account or Group of Accounts</u>	<u>Code No.</u>
Salaries and Allowances of Administrative Staff	21
Running Expenses of Motor Vehicles	27
Insurance Contributions Refunded	33
Investments	57
Furniture and Equipment for Office Premises	65
Income from Investments	06
Contingencies Reserve	58
Current Accounts	70

710. Subdivisions of the main accounts would be indicated by a second figure of two digits separated from the first by a hyphen (or, if preferred, an oblique stroke). The code numbers indicating these subdivisions would be odd if the account has normally a debit balance (-01, -03, -05, etc.) and even if the account has normally a credit balance (-02, -04, -06, etc.).

Examples

<u>Name of Account</u>	<u>Code No.</u>
Overtime of Administrative Staff	21-03
Depreciation of Motor Vehicles	27-07
Rents from Properties Let	06-10
Deposits with Banks or Other Financial Institutions	57-01
Regional Office Current Account	70-10

711. Sometimes these subdivisions will be separate accounts in the sense of having a separate page in a ledger; sometimes the entries will be made in analysis columns of the main account. There is no difference in principle between these ways of keeping the accounts; it is entirely a question of convenience depending mainly upon the volume of transactions to be expected and the number of analysis columns that would be required on the page of the main account. (It will, of course, be realised that in taking out a Trial Balance either the balance of the main account or the separate balances of the individual subdivisions as shown in the analysis columns will be included - but not both.)

712. The method described in the preceding paragraphs of allocating code numbers to the accounts is, it must however be emphasised, only one of a number of possible methods, and whether to adopt it or to number the accounts by some other method is entirely optional.

713. A disadvantage perhaps of the method is that accounts of the same type, or accounts related to one another (for example, a series of personal accounts of debtors, or the accounts in the Expenditure Ledger) would not be numbered consecutively, but in consecutive odd numbers. In the case of a scheme large enough to use the punched-card accounting machines this might be a disadvantage, since accounting machines can be used to greater advantage - for sorting and analysing, for example - if the full range of figures, both odd and even, can be brought into play for any particular operation.

714. The use of consecutive numbers for accounts of the same type could, of course, be obtained by allocating different blocks of (consecutive) numbers for accounts belonging to different classes. On the other hand it may not be thought worth while to attempt any kind of numbering in which the character of an account would be indicated by its number.

715. As it will be necessary for the purposes of this study to number the accounts by one method or another before explaining their use and stating the entries that will require to be made, it is proposed to adopt the method described in paragraphs 706-710 above. This will illustrate the use of the method, but, as pointed out above, it is only one method among many that might be used, and any method by which a particular account can be referred to concisely will equally serve the purpose.

716. The remaining sections of this part are arranged as follows:

Section 2 contains a suggested list of accounts.

Section 3 contains a suggested list of ledgers in which the accounts might be kept.

Section 4 explains the meaning and purpose of the different accounts in so far as this is not self-evident and illustrates by stating the entries normally made.

Section 5 deals with the duties of the book-keeper at the end of the month and the end of a year, including the preparation of the monthly and annual accounts.

717. Section 1 of Part V contains suggested rulings for the cash book and ledger accounts referred to in section 3 of this part, and section 2 of Part V gives drafts of the forms - of the FN series - which will be required to carry out the financial and accounting procedures outlined elsewhere in this study.

PART III

Section 2 - List of Accounts

"Income and Expenditure" Accounts (Comptes de Gestion)

Income from Insurance Contributions

- 02-02 Sale of insurance stamps ☒ or, Receipts in cash from employers ☒
- 02-04 Amounts due from employers in arrears
- 02-06 Cash receipts from employers in arrears

☒ Government Contribution

- 04- Government contribution in respect of the year ☒

Income from Investments

- 06-02 Interest on deposits with banks or other financial institutions
- 06-04 Income from securities
- 06-06 Income from loans secured by mortgage of real estate
- 06- 8 Rents from properties let
- 06-10 Any other income from investments

Other Income

- 08-02 Fines
- 08-04 Miscellaneous other income

Provision of Medical Care

Code No.

- 01 Salaries and allowances of medical and para-medical staff.
 - 01-01 Salaries
 - 01-03 Overtime
 - 01-05 Family allowances
 - 01-07 Travelling expenses
 - 01-09 Subsistence allowances
 - 01-11 Other allowances
 - 01-13 Employers' social insurance contributions
- 03 Running expenses of hospitals, dispensaries and other premises used for the provision of medical care.
 - 03-01 Food and provisions for patients and staff
 - 03-03 Crockery, cutlery, etc
 - 03-05 Rent [if applicable]
 - 03-07 Maintenance and repairs of premises
 - 03-09 Insurance of premises
 - 03-11 Depreciation of premises
 - 03-13 Maintenance and repairs of furniture and equipment
 - 03-15 Insurance of furniture and equipment
 - 03-17 Depreciation of furniture and equipment
 - 03-19 Lighting
 - 03-21 Heating
 - 03-23 Water
 - 03-25 Postage and telegrams
 - 03-27 Telephones
 - 03-29 Overalls for medical and para-medical staff
 - 03-31 Other running expenses

Code No.

- 05 Cost of pharmaceutical products, medical appliances, X-ray films and other medical supplies consumed.
 - 05-01 Pharmaceutical products
 - 05-03 Medical appliances
 - 05-05 X-ray films
 - 05-07 Other medical supplies
- 07 Running expenses of ambulances.
 - 07-01 Petrol and oil
 - 07-03 Insurance
 - 07-05 Maintenance and repairs
 - 07-07 Depreciation
 - 07-09 Taxation and other running expenses
- 09 Payments under agreements for the provision of medical care
 - 09-01 Payments to public institutions
 - 09-03 Payments to private institutions
 - 09-05 Payments to private medical practitioners, etc.
 - 09-07 Payments to private consultants, specialists, etc.
- 11 Other expenses of the provision of medical care.

Cash Benefits

- 17-01 Sickness benefit
- 17-03 Maternity benefit
- 17-05 Injury benefit
- 17-07 Total disability pension
- 17-09 Partial disability pension
- 17-11 Survivors' pensions
- 17-13 Funeral grant

Administration

- 21 Salaries and allowances of administrative staff.
 - 21-01 Salaries
 - 21-03 Overtime
 - 21-05 Family allowances

Code No.

- 21-07 Travelling expenses
- 21-09 Subsistence allowances
- 21-11 Other allowances
- 21-13 Employer's social insurance contributions
- 23 Allowances and expenses of Social Insurance Board.
 - 23-01 Fees of Chairman and members
 - 23-03 Travelling expenses
 - 23-05 Subsistence allowances
 - 23-07 Cost of expert assistance
- 25 Running expenses of administrative offices.
 - 25-01 Rent [if applicable]
 - 25-03 Maintenance and repairs of premises
 - 25-05 Insurance of premises
 - 25-07 Depreciation of premises
 - 25-09 Maintenance and repairs of furniture and equipment
 - 25-11 Insurance of furniture and equipment
 - 25-13 Depreciation of furniture and equipment
 - 25-15 Lighting
 - 25-17 Heating
 - 25-19 Water
 - 25-21 Postage and telegrams
 - 25-23 Telephones
 - 25-25 Stationery and office supplies
 - 25-27 Printing and supply of forms, account books, publications, etc.
 - 25-29 Uniforms of subordinate staff
 - 25-31 Other consumable stores
 - 25-33 Other running expenses

Code No.

- 27 Running expenses of motor vehicles.
 - 27-01 Petrol and oil
 - 27-03 Insurance
 - 27-05 Maintenance and repairs
 - 27-07 Depreciation
 - 27-09 Taxation and other running expenses
- 29 Other expenses of administration.
 - 29-01 Advertising and publicity
 - 29-03 Legal expenses
 - 29-05 Expenses of participation in international organisations
 - 29-07 Cost of external audit
 - 29-09 Miscellaneous incidental expenses of administration

Maintenance of Properties Let

- 31 31-01 Maintenance and repairs
- 31-03 Insurance
- 31-05 Depreciation
- 31-07 Other landlord's expenses

Other Charges

- 33 Insurance contributions refunded
- 35 Amounts due from employers in arrears written off as irrecoverable.
- 37 Losses.

Adjustment Account

- 10 Net adjustment on revaluation of consumable medical supplies.

Code No.

Income and Expenditure Account(s)

- 50 ☒ Consolidated ☒ Income and Expenditure Account
- ☒ 50-10 Medical Care Income and Expenditure Account
- 50-20 Sickness Cash Benefit Income and Expenditure Account
- 50-30 Maternity Cash Benefit Income and Expenditure Account
- 50-40 Employment Injury Cash Benefit Income and Expenditure Account
- 50-50 Funeral Grant Income and Expenditure Account
- 50-60 Administration Income and Expenditure Account ☒

"Balance Sheet" Accounts (Comptes de Situation)

Code No.

- 51 Cash Book
 - 51-01 Cash columns
 - 51-03 Bank columns
- 53 Sundry debtors other than employers in arrears.
 - 53-01, 53-03, 53-05, etc. - Accounts of individual debtors
- 55 Employers in arrears
 - 55-01, 55-03, 55-05, etc. - Accounts of individual employers in arrears
- 57 Imprest Accounts
 - 57-01, 57-03, 57-05, etc - Accounts of individual imprest holders
- 59 Investments
 - 59-01 Deposits with banks or other financial institutions
 - 59-03 Government securities
 - 59-05 Other fixed-interest securities
 - 59-07 Loans on mortgage of real estate
 - 59-09 Variable-yield investments
 - 59-11 Properties for letting
- 61 Purchase of pharmaceutical products, medical appliances, X-ray films and other medical supplies
 - 61-01 Pharmaceutical products
 - 61-03 Medical appliances
 - 61-05 X-ray films
 - 61-07 Other medical supplies
- 63 Furniture and equipment for hospitals, dispensaries and other premises used in the provision of medical care
 - 63-01 Expenditure (less depreciation written off) brought forward from previous year
 - 63-03 Expenditure during current year

Code No.

- 65 Furniture and equipment for office premises
 - 65-01 Expenditure (less depreciation written off)
brought forward from previous year
 - 65-03 Expenditure during current year
- 67 Ambulances.
 - 67-01 Expenditure (less depreciation written off)
brought forward from previous year
 - 67-03 Expenditure during current year
- 69 Other motor vehicles.
 - 69-01 Expenditure (less depreciation written off)
brought forward from previous year
 - 69-03 Expenditure during current year
- 71 Hospitals, dispensaries, and other premises for use
in the provision of medical care: cost of construc-
tion, purchase, adaptation, etc.
 - 71-01 Completed expenditure (less depreciation written
off)
 - 71-03 Expenditure on work in progress brought forward
from previous year
 - 71-05 Expenditure during current year
- 73 Office premises: cost of construction, purchase,
adaptation, etc.
 - 73-01 Completed expenditure (less depreciation written
off)
 - 73-03 Expenditure on work in progress brought forward
from previous year
 - 73-05 Expenditure during current year
- 75 Losses Suspense Account.
- 77 Preliminary Expenses.
 - 77-01 Salaries and Allowances of staff
 - 77-03 Allowances and expenses of social insurance Board

Code No.

- 77-05 Cost of acquiring, adapting, etc. premises to be used for the provision of medical care
- 77-07 Cost of furniture and equipment for premises to be used for the provision of medical care
- 77-09 Cost of acquiring, adapting, etc. office premises
- 77-11 Cost of furniture and equipment for office premises
- 77-13 Rent, maintenance and other expenses of premises to be used for the provision of medical care
- 77-15 Rent, maintenance and other expenses of office premises
- 77-17 Other preliminary expenses
- 52 Sundry Creditors for Cash Benefits
- 54 Other Sundry Creditors
- 56 Cash Surplus Suspense Account
- 60 Other Suspense Accounts
 - 60-10, 60-20, 60-30, etc. - as required
- 70 Current Accounts
 - 70-10, 70-20, 70-30, etc. - Current accounts with regional offices, local offices, hospitals, etc., as required
- 80 Remittances in Transit
- 58 Contingencies Reserve
- 62 Development Fund
- 64 Social Insurance Fund.

PART III

Section 3 - Ledgers, etc., in which Financial Accounts
are to be kept

CASH BOOK(S) - for Cash Account(s) and Bank Current Account(s).

EXPENDITURE LEDGER - for accounts of expenditure (except capital expenditure) authorised by the Estimates of Expenditure as approved by the Board.

CASH BENEFITS LEDGER - for accounts (in tabular form) of expenditure on the different cash benefits.

EMPLOYERS IN ARREARS LEDGER - for the personal accounts of employers in arrears.

SUNDRY DEBTORS LEDGER¹ - for the personal accounts of debtors other than employers in arrears.

SUNDRY CREDITORS LEDGER¹ - for the personal accounts of suppliers and other creditors.

BUILDINGS, EQUIPMENT AND INVESTMENTS LEDGER - for the accounts of assets, including capital expenditure authorised by the Estimates of Expenditure as approved by the Board.

GENERAL LEDGER - for all other accounts, including accounts of income from insurance contributions, income from investments, other income, accounts of reserves, the Income and Expenditure Account(s) and the Social Insurance Fund Account.

¹ These should be loose-leaf ledgers to facilitate the introduction of new accounts in the order desired, e.g. employers in arrears according to registered number, or debtor and creditor alphabetically - see Note 15 of Part IV.

PART III

Section 4 - Meaning and Purpose of the Different
Accounts, and Normal Entries

(See Notes 1, 4, 5, 6, 7, 11 and 12 of Part IV)

718. The use of the Cash Book (Code No. 51) and the recording of payments and receipts in it have been dealt with in Part II, Section 3, Chapters 2 and 3 (paragraphs 228-298), and the duties of cashiers have been explained in Chapter 7 of Section 4 of Part II (paragraphs 368-374). This section will explain the use of the other accounts listed in Section 2 above, and the entries to be made in them.

Income from Insurance Contributions

Account 02-02 - Sale of Insurance Stamps ☒ Stamps method,
or Receipts in cash from Employers ☒ Pay-
roll method ☒

719. Stamps method. Each day the book-keeper will receive from the internal auditor the blue copy of Form FN14 giving the receipts in total for the previous day's sales of insurance stamps (see paragraph 279). The book-keeper, after making certain that the FN14 has been signed by the internal auditor, will post the amount to the credit of Account 02-02, dating the entry according to the day on which the sales of stamps took place, and giving a reference to the FN14 as the voucher for the entry.

720. Pay-roll method. Each day the book-keeper will receive from the internal auditor the blue copy of Form FN15 giving the total receipts for the previous day from the periodical payments by employers in respect of contributions (see paragraph 296). The book-keeper, after making certain that the form has been signed by the internal auditor, will post the amount to the credit of Account 02-02, dating the entry according to the day on which the amounts were received and giving a reference to the FN15 as the voucher for the entry.

721. ☒ Note 6 of Part IV discusses the basis on which insurance contributions should be accounted for in the monthly and annual accounts, and suggests that the most satisfactory basis is to take credit only for contributions actually

received in cash, but to keep complete records of contributions due but in arrears, and to give full particulars of these in a footnote to the Income and Expenditure Account. The book-keeping for this method will be explained in paragraphs 722-726, and for the alternative method of taking credit for all contributions established as due, and setting up a Reserve for bad debts, in paragraph 727.]

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Accounts 55-01, 55-03, 55-05, etc. - Personal Accounts of Employers in Arrears (in Employers in Arrears Ledger)

Account 02-04 - Amounts due from employers in arrears

Account 02-06 - Cash receipts from employers in arrears

Account 35 - Amounts due from Employers in Arrears written off as irrecoverable.

722. Whenever the book-keeper receives a form FN4 to which a notification on Form FN16 that a particular employer is in arrears in respect of insurance contributions due from him is attached, the book-keeper will open a personal account, in the name of the employer, in the Employers in Arrears Ledger. He will head the account with the name and registered number of the employer and will post to the debit of the account the amount notified on the FN4 (see paragraphs 406-410) giving a reference on the account to the serial number of the FN4, and noting on the FN4 a reference to the folio of the entry in the Employers in Arrears Ledger.

723. At the same time, to complete the double entry, he will credit the amount to Account 02-04 (Amounts due from Employers in Arrears) which will be kept in the General Ledger. He will state in the narrative the name and registered number of the employer in arrears and will give a reference to the serial number of the FN4, noting also on the latter a reference to the posting of the amount to the credit of Account 02-04.

724. When the book-keeper receives notification, by means of the pink copy of a receipt form (FN3), of a payment by an employer in arrears (which will be indicated by the

statement on the FN3 that the account to be credited is the personal account of the employer in the Employers in Arrears Ledger) he will post the amount to the credit of the personal account, making the usual cross-references on the account and the FN3. At the same time it will be necessary, by means of a transfer form (FN4) to transfer the amount paid from Account 02-04 to Account 02-06 (debit the former, credit the latter).

725. In cases where collection of contributions is by the pay-roll method, the cashier should be careful to distinguish between receipts from an employer by way of the regular monthly or other periodical payments for contributions, and payments in liquidation of arrears in whole or part - see in this connection paragraphs 413-414. The credit of the former will, of course, be to Account 02-02 and of the latter to the employer's personal account in the Employers in Arrears Ledger, with, in the latter case, a transfer in addition from Account 02-04 to Account 02-06, as explained in the previous paragraph. The internal auditor should in these cases check specially carefully, before signing the FN3, that the account to be credited is correctly stated thereon.

726. If any amount due from an employer in arrears is to be written off as irrecoverable (see paragraph 418) the book-keeper will receive a Transfer Form (FN4) directing him to debit Account 35 (Amounts due from Employers in Arrears written off as irrecoverable) and credit the personal account of the employer, e.g. 55-01, in the Employers in Arrears Ledger. The book-keeper will be careful to satisfy himself that the FN4 has been signed by the internal auditor and will then make the entries required.

727. If it is decided to take credit in the monthly and annual accounts for all contributions established as due, and to set up a Reserve for bad debts (see paragraph 988 of Note 6 of Part IV) there would be no change in the book-keeping arrangements described in paragraphs 722-726 above, except that at the end of the year a Reserve for bad debts would be established, or the amount of such a Reserve appropriately increased (debit Income and Expenditure Account, credit the Reserve account by means of a form FN4), and during the following year any amounts which it had been decided, under proper authority, to write off as irrecoverable would, as before, be credited to the personal account in the Employers in Arrears Ledger, but would be debited to the Reserve account. The way in which contributions would be shown in the monthly and annual accounts in the event of this alternative method of treating contributions being preferred is dealt with in paragraph 839.

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Account 04 - Government contribution in respect of the year.

Accounts 06-02, 06-04, 06-06, etc. - Income from Investments.

Accounts 08-02 - Fines.

Account 08-04 - Miscellaneous other income.

728. These are the accounts of income other than in respect of insurance contributions, and will be posted from the pink copies of the relevant receipt forms (FN3) to the credit of the appropriate account as indicated on the FN3.

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Expenditure Accounts

729. Accounts 01 to 37 (odd numbers) are all expense accounts. They are arranged, to correspond with the arrangement of expenditure as it will appear in the Income and Expenditure Account to be prepared monthly and annually, under group headings as under:

Provision of Medical Care	Accounts 01-11
Cash benefits	17
Administration	21-29
Maintenance of Properties let	31
Other Charges	33-37

730. Account 59 (Investments) and other capital expenditure accounts such as 61, 63-03, 65-03, 67-03, 69-03, 71-05 and 73-05 are similar to Accounts 01 to 37 (odd numbers) except that the balances of those accounts will be shown ultimately in the Balance Sheet and not in the Income and Expenditure Account. From the point of view of the book-keeping entries required when expenditure takes place they can thus be considered along with Accounts 01 to 37 (odd numbers). (Reference should be made to Note 12 of Part V (Pharmaceutical products and other medical supplies) as to the reasons for including Account 61 among the "Balance Sheet" accounts.)

731. Note 7 of Part IV discusses the advantages and disadvantages of accounting for expenditure when it becomes due, irrespective of date of payment, as compared with

accounting on a purely cash basis - that is, making no accounting entries until payment takes place. The book-keeping for the cash basis of accounting is detailed below, and, as an alternative, a method is given which, as explained in Note 7, enables the monthly and annual accounts to be prepared on the basis of accounting for expenditure when it becomes due, while at the same time retaining the cash basis for the day-to-day book-keeping.⁷

Book-keeping on Cash Basis

732. The internal auditor will send to the book-keeper the pink copy of every payment voucher after he has examined and certified it. The book-keeper will check that the internal auditor has completed his certificate on the form and will file the pink copy until he receives from the cashier the blue copy of the payment voucher giving details of the payment. The book-keeper will compare the two, and if satisfied that there has been no alteration on the blue copy of name of payee or amount, will fasten the two copies together, with the blue copy on top, and enter the payment on the debit side of the account stated on the form.

733. He will number the entries in each account consecutively, enter the date of payment as shown on the blue copy, the name of the payee, the serial number pre-printed on the payment voucher, and the amount. Finally, he will insert on Part VII of the blue copy the consecutive number of the entry in the account and will file the payment voucher under the code number of the account and in numerical sequence according to the consecutive numbers of the entries.

734. With regard to payments of cash benefits, the procedure will be similar to that described above, except that the book-keeper will use as the posting medium the blue copies of Form FN7 (Daily Record of Payments of Cash Benefit) which he will receive from the internal auditor. There will, however, be no pink copy of the form, and the book-keeper should check that the certificate of the internal auditor on the blue copy of the form has been properly completed.

Alternative Method

735. Book-keeping during the month will be exactly as explained above. At the end of the month, however, it will be necessary to ascertain for each expenditure account the total amount authorised for payment but not yet paid.

736. This should be done at the beginning of the new month but before the accounts of the old month have been closed. The cashier will tabulate on Form FN13 (in duplicate) the cash benefits due before the end of the old month but still unpaid, on payment schedules still open, including of course suspense schedules. Each FN13 will show, by analysis columns, the cash benefit accounts to be debited.

737. Form FN13 will be passed to the internal auditor who, after examination and certification by him, will pass it to an officer of Finance and Accounts Section who is empowered to authorise transfers. The latter will complete a transfer Form FN4 for debits to the appropriate cash benefit accounts and credit of the total amount to Account 52 (Sundry Creditors for Cash Benefits) (see paragraphs 772-775 below). He will attach the top and duplicate copies of the FN13 to the top and duplicate copies of the FN4, and will pass them to the book-keeper for the required adjusting entries to be made.

738. With regard to expenditure other than on cash benefits the book-keeper will refer to his file of pink copies of payment vouchers (see paragraph 732 above) to obtain the amounts due but unpaid at the end of the month. He will tabulate, on Form FN12, (in duplicate) under the different accounts chargeable the amounts shown on the pink copies, and will pass the copies of the FN12 to the internal auditor. Subsequent action will be as in connection with Form FN13 (see preceding paragraph).

739. To avoid the complication that at the end of a month some payment vouchers or payment schedules may be with the internal auditor for the pre-payment check and would not therefore be included on Forms FN12 or FN13, it will be desirable to instruct the book-keeper and the cashier to delay the preparation of these forms until the expiration, after the beginning of the month, of the maximum period allowed to the internal auditor for retention of payment vouchers and payment schedules, so as to ensure that the book-keeper and the cashier will have received the last of the payment vouchers and payment schedules issued in the previous month.

740. The action to be taken by the book-keeper when he receives the FN4s to which Forms FN12 and FN13 are attached, which will have the effect of adjusting the expenditure accounts so that they will show the expenditure authorised for payment during the period instead of that paid during the period, is explained in paragraphs 772-775 below.

Accounting Transfers

741. Included in the expense accounts 01 to 37 (odd numbers) are a number on which the book-keeper will make entries from Accounting Transfer Forms (FN4) and not from payment vouchers. These will include:

Depreciation Accounts (03-11, 03-17, 07-07 etc.), the Consumption Accounts (05), Account 35 (Amounts due from Employers in Arrears written off as irrecoverable) and Account 37 (Losses).

742. When he receives a Form FN4 the book-keeper will first check that it has been signed by the internal auditor. He will then make the debit and credit entries required. He will number the entries in each account consecutively, enter the date of authorisation in the "Date" column, insert the serial number of the FN4 and the amount. Finally, he will insert on the FN4 the consecutive numbers of the entries and will file the FN4 under the Code No. of the account which has been debited (or the first of these if there are more than one) and in numerical sequence according to the consecutive numbers of the entries.

743. The subject of Depreciation is discussed in Note 4 of Part IV. The charge for depreciation is usually made once a year, at the end of the year, and will constitute one of the end-of-year adjustments to be made - paragraphs 863-869.

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Accounts 05-01, etc. (Cost of pharmaceutical products, etc. consumed) (see Note 12 - Pharmaceutical products and other medical supplies)

744. The use of these accounts is explained in the Note referred to and in paragraphs 825-826.

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Account 35 (Amounts due from employers in arrears written off as irrecoverable)

745. The purpose of this account and its operation have been explained above (paragraph 726) in conjunction with the explanation of the accounts in the Employers in Arrears Ledger (Accounts 55-01, 55-03, etc) and Account 02-04 (Amounts due from employers in arrears).

Account 37 (Losses)

746. The subject of losses (including deficiencies and overpayments) is discussed in Note 11 of Part IV and the procedure for the investigation and accounting control of losses is dealt with in Chapter 3 of Section 5 of Part II (Paragraphs 419-432). The book-keeper will receive instructions by means of Transfer Forms (FN4) to make the necessary accounting entries.

747. He will first receive a form FN4 directing him to debit the amount of a loss to Account 75 (Losses Suspense) and to credit the same amount to the particular account which has suffered the loss. For example, if someone has stolen insurance stamps from the unused stock in the office and has sold them, retaining the proceeds, Account 02-02 (Sale of insurance stamps) would be the account to be credited, or if a widow's pension had been paid to someone not entitled to it, Account 17-11 would be credit. (If, however, there has been a loss of cash which had already been brought to account in the cash book the credit would have to be to the cash book, and as credits in the cash book are authorised by payment vouchers, in this case a payment voucher suitably amended would be issued for the purpose, and the book-keeper would make his entry when he received the blue copy of the payment voucher, on which the account to be debited would be shown as 75 (Losses Suspense).)

748. Later, after the process of investigation has been completed, the book-keeper will receive either the pink copy of a receipt form (FN3) showing the receipt of the whole or part of the amount of the loss or overpayment, on which the account to be credited will be shown as 75 (Losses Suspense), or a transfer form (FN4) directing him to transfer the debit, in whole or part, from Losses Suspense to a personal account to be opened in the Sundry Debtors Ledger (debit the personal account, e.g. 53-01, credit 75) or to Losses Account (debit 37, credit 75).

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Account 10 - Net adjustment on revaluation of consumable medical supplies

749. The use of this account is explained in paragraphs 876-879.

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Other "Balance Sheet" Accounts

Accounts 53-01, 53-03, 53-05, etc. - (Personal Accounts of Sundry Debtors other than Employers in Arrears)

750. A personal account will be opened in the Sundry Debtors Ledger as soon as any amount becomes due to the Institution. This will occur when, for example, rent of any property let is not paid on the due date, or if an overpayment of any kind occurs which is recoverable from the recipient, or if it is decided, as a disciplinary measure, to require repayment from any member of the staff of the whole or part of any loss, deficiency, or overpayment, which has occurred (see paragraph 748 above). The book-keeper will make the required entries on the authority of an FN4, debiting the personal account and, in the case of the examples mentioned, crediting the relevant account, e.g. 06-10 (Rents from properties let), one of the cash benefit accounts (17-01, etc.) or Losses Suspense (75). When payment of the amount due, or part thereof, is received, the book-keeper will credit the personal account from the blue copy of the receipt form (FN3).

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Account 71 - Hospitals, dispensaries and other premises for use in the provision of medical care: cost of construction, purchase, adaptation, etc.

Account 71-01 - Completed expenditure (less depreciation written off)

Account 71-03 - Expenditure on work in progress brought forward from previous year

Account 71-05 - Expenditure during current year

751. Any capital expenditure to be incurred in a particular year will be included in the budget for the year as approved by the Board. In order to relate expenditure incurred to the amount approved in the budget, it will be convenient to debit such expenditure to a separate account, e.g. 71-05. If at the end of the year the project has not been completed the balance of Account 71-05 will be transferred to Account 71-03 (Expenditure on work in progress brought forward from previous year) which will leave Account 71-05 available to record the expenditure incurred in the following, i.e. the then current year.

752. When a particular project is completed, "work in progress" becomes "completed expenditure" and consequently the balance of Account 71-03 will be transferred to Account 71-01. It is convenient to distinguish between work in progress and completed expenditure for two reasons - first because it is usual to show the items separately in the Balance Sheet, and secondly because depreciation does not become chargeable until the project has been completed.

753. The entries in Account 71-05 will be made as explained in paragraphs 730-740 above. The transfers referred to will be authorised by transfer forms (FN4). Account 71-01 will be kept in the Buildings, Equipment and Investments Ledger: Accounts 71-03 and 71-05 in the General Ledger.

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Account 73 - (Office premises: cost of construction, purchase, adaptation, etc.)

Account 63 - (Furniture and equipment for hospitals, dispensaries and other premises used in the provision of medical care)

Account 65 - (Furniture and equipment for office premises)

Account 67 - (Ambulances)

Account 69 - (Other motor vehicles)

754. Arrangements similar to those explained in paragraphs 751-753 will be applied to the other asset accounts referred to above. For obvious reasons, however, there will be no "work in progress" subdivision of Accounts 63, 65, 67 and 69.

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Accounts 57-01, 57-03, 57-05, etc. - (Personal Accounts of individual imprest holders)

755. An imprest is an advance of money, to meet, for example, travelling expenses on official business, or out of which to make "petty cash" payments. The amount of the advance will be debited, from the relevant payment voucher (FN1), to a personal account (57-01, etc.) to be opened, in the name of the imprest holder, in the Sundry Debtors Ledger.

756. In due course the imprest holder will have to account for the amount advanced. He will do so by submitting receipts for the payments he has made out of the advance, and returning any balance of the advance not used. An officer of Finance and Accounts Division of appropriate grade will examine the vouchers for the disbursements and if he is satisfied will complete a transfer form (FN4) directing the debit to the appropriate expense account or accounts of the expenditure from the imprest, and the credit to the personal account of the total amount of the expenditure from the imprest.

757. Any balance of cash returnable will be paid to the cashier, who will indicate on the receipt form (FN2 and FN3) that the account to be credited is the personal account of the imprest holder. If, on the other hand, the disbursements have exceeded the amount of the imprest the balance due will be paid on the authority of a payment voucher (FN1).

758. The book-keeping entries will be made in the usual way from the FN4 or the book-keeper's copies (FN3 or FN1) and in the ordinary course will clear the original debit to the personal account.

759. An imprest may be a "standing imprest" - that is, one periodically restored to the original amount on production of vouchers for payments made. Standing imprests may be authorised for officers who are more or less continually engaged on duties involving official travelling, or for "petty cash" sub-cashiers - see with regard to the latter, paragraphs 258-259.

760. The amount of the standing imprest will remain as a debit against the holder in the Sundry Debtors Ledger; the payments made periodically to restore the amount of the imprest will be debited to the expense accounts from the relevant payment voucher as explained in paragraph 259, in connection with petty cash payments, the corresponding credit being, of course, to cash.

761. At the end of the year all standing imprests should be repaid, and may be reissued at the beginning of the new year

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Account 75 (Losses Suspense)

762. The use of this account is explained above in paragraphs 746-748.

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Account 77 (Preliminary expenses)

Account 77-01 - (Salaries and allowances of Staff)

Account 77-03 - (Allowances and expenses of Social Insurance Board)

Account 77-05 - (Cost of acquiring, adapting, etc. premises to be used for the provision of medical care)

Account 77-07 - (Cost of furniture and equipment for premises to be used for the provision of medical care)

Account 77-09 - (Cost of acquiring, adapting, etc., office premises)

Account 77-11 - (Cost of furniture and equipment for office premises)

Account 77-13 - (Rent, maintenance and other expenses of premises to be used for the provision of medical care)

Account 77-15 - (Rent, maintenance and other expenses of office premises)

Account 77-17 - (Other preliminary expenses)

763. These are the accounts to which will be debited all expenditure, of whatever nature, incurred before the date on which the operation of the scheme of social insurance commences - that is, the date as from which insurance contributions become payable and benefits (subject to waiting or qualification periods) become due. Preliminary Expenses thus represent the cost of planning and preparing for the commencement, and the whole must be looked on as in the nature of capital expenditure - not only the cost of acquiring assets such as premises, equipment, etc., but also the expenditure on such items as salaries, since all of it is expenditure the benefit of which remains to be enjoyed when the scheme, as a result of the preparatory effort, commences to operate. (The expenditure will probably be made out of a loan or other form of advance made to the Institution, probably by the Ministry of Finance or some other government department.)

764. Some of this capital expenditure will be represented by tangible assets, e.g. the balances of Accounts 77-05, 77-07, 77-09 and 77-11 and at the commencement of the scheme the balances of these accounts will be transferred to Accounts 71-01, 63-01, 73-01 and 65-01 respectively, by means of a transfer form (FN4) - debit the last-mentioned accounts, credit the corresponding Preliminary Expenses accounts, thus closing them.

765. The balances of the other Preliminary Expenses accounts, representing the intangible capital expenditure, might be transferred to a single "Preliminary Expenses" Account when the scheme commences. At any rate the total amount of this intangible capital expenditure will be shown on the Assets side of the Balance Sheet as "Preliminary Expenses" (preferably classified in an inner column of the Balance Sheet under its principal heads - Salaries, Office Expenses, Printing, etc.) unless and until it is written off out of income.

766. This should be done as soon as convenient, and it may be that the budget for the first year will provide for this, or at any rate for part of the balance to be written off in the first year. If so a transfer (FN4) will be authorised at the end of the first year directing the debit to the Income and Expenditure Account and credit to "Preliminary Expenses" Account of the whole or part of the balance outstanding on the latter account.

767. At the same time and in conjunction with the budget provision referred to in the preceding paragraph, the budget will provide for the repayment, out of expected surplus income, of as much as possible of the loan or other source of finance from which the preliminary expenses were met before the Institution commenced to receive any income of its own, and this repayment should be made at the end of the year (credit Cash, debit the Loan Account or other corresponding account in the Sundry Creditors Ledger) at the same time as the transfer referred to in the preceding paragraph is made.

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Accounts 60-10, 60-20, etc. (Other Suspense Accounts)

768. The purpose of a Suspense Account is to accommodate an amount temporarily until such time as the ultimate destination of the amount is determined. Account No. 75 (Losses Suspense), the use of which is explained in paragraphs 746-748, is an example. Another occasion on which to open a suspense account would occur if, for example, a bill for painting and decoration were received, under a contract which covered both office premises and a dispensary, and it was not known how the total amount should be divided between Account 03-07 and Account 25-03. The payment would be debited in the first place to a suspense account, say, 60-30 and, later, when the division of the total amount was ascertained, a transfer (FN4) would be authorised, debiting 03-07 and 25-03 in the ascertained proportions, and crediting the total to 60-30, thus closing the suspense account.

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Accounts 70-10, 70-20, etc. (Current accounts with regional offices, local offices, hospitals, etc.)

769. Current accounts are necessary to record continuing transactions, sometimes one way, sometimes the other, between different offices of the Institution. The Central Office will open current accounts for all sub-accountants - that is, officers who must account to the Chief Finance Officer at the Central Office - and each sub-accountant will open a current account for the Central Office. All remittances passing between Central Office and sub-accountants will be recorded in these current accounts, but on different sides. If, for example, a local office, after heavy sales of insurance stamps, finds the balance in its current account at the local bank more than sufficient for its immediate requirements and remits the surplus to the Central Office, the local office would debit the Central Office Current Account in the Local Office General Ledger (crediting the "Bank" column of the cash book) and the Central Office would credit ... Local Office Current Account in the Central Office General Ledger, (debiting the Central Office cash book).

770. It is clearly necessary to keep these complementary current accounts in alignment with each other and they must be reconciled periodically - at least once a month - and any divergencies, which may be due to "items in transit" (that is, items recorded in the remitting account but not yet received by the other account) properly accounted for.

771. At the end of every month there will be a general transfer of balances from the sub-accountants to Central Office to enable Central Office to prepare the monthly or annual accounts for the Institution as a whole. These transfers will be effected by means of the current accounts. The book-keeping is explained in paragraph 804 and paragraphs 819-823 as part of the operations of preparing the monthly and annual accounts.

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Account 52 (Sundry Creditors for Cash Benefits)

772. This account will come into play only at the end of a month in connection with the operation of adjusting the charges to the Cash Benefit Accounts so as to put them on the basis of amounts which have become due during the month irrespective of whether they have been paid - see paragraphs 735-740 above. Its use will not be necessary if it is decided to account on a purely cash basis.

773. When the book-keeper receives the FN4 to which form FN13 is attached (see paragraph 737) he will make the debits indicated and will credit the total to Account 52, inserting on each account a reference to the FN4. The transfers will be dated as on the last day of the old month and will, of course, be posted before the monthly accounts for the old month are prepared.

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Account 54 (Other Sundry Creditors)

774. This account corresponds in its purpose and use to Account 52. When the book-keeper receives the FN4 to which form FN12 (see paragraphs 738-739 above) is attached he will make the debits indicated on the FN4 and will credit the total (as instructed on the FN4) to Account 54, inserting on each account a reference to the FN4.

775. After the accounts for the old month have been compiled it will be necessary to make the following accounting transfers in order to deal with the situation which will arise when payment takes place, in the new month, of the amounts which were authorised and have now been charged in the old month:

Debit Account 52 with the total amount credited as at the end of the old month,

Credit the Cash Benefit accounts previously debited,

Debit Account 54 with the total amount credited as at the end of the old month,

Credit the Expenditure accounts previously debited.

It will be seen that these entries reverse the adjustments previously made, and prevent the delayed payments from being charged to the Cash Benefit or Expenditure accounts a second time.

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Account 56 (Cash Surplus Suspense Account)

776. There may be occasional surpluses of cash which come to light when the cash balance is being checked at the end of the day, or at other times, and which cannot be accounted for. Whereas cash shortages will be debited to

Account 75 (Losses Suspense) - see paragraph 747 above - by means of a payment voucher suitably amended, cash surpluses will be credited to Account 56 by means of a receipt form suitably adapted. The cashier will retain the white copy (FN2) and will pass on the blue and pink copies (FN3) to the internal auditor in accordance with the normal procedure.

777. When the book-keeper receives the pink copy from the internal auditor he will check that the internal auditor has signed the form and will post the amount to the credit of Account 56. The disposal ultimately of the balance of the suspense account will be effected by means of a transfer form (FN4). It may be decided to set it off against any cash losses that may have occurred.

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Account 58 (Contingencies Reserve)

(See Note 5 of Part IV, paragraphs 958-960 and 966-969.)

[Account 62 (Development Fund)]

(See Note 5 of Part IV, paragraph 970.)

778. These reserve accounts - and any others that a particular scheme may require - will be opened to record the setting aside, for the particular purpose indicated by the title of the reserve, of income which is not required to meet expenditure expected to be incurred in the immediate future. The need for and particular purpose of the reserves is explained in the paragraphs of Note 5 of Part IV noted above.

779. Transfers to the reserve accounts will be made - as part of the operations connected with closing the accounts at the end of a financial year and preparing the annual accounts - by means of transfer forms (FN4), which will direct the book-keeper to debit the Income and Expenditure Account (Account 50) and credit the reserve account.

780. This will have the effect of earmarking for the particular reserve the amount thus set aside. The amount has, in effect, been taken out of the surplus of income over expenditure which the Income and Expenditure Account would otherwise show. The amount of cash thus earmarked should then be invested so as to earn income until such time as the reserve may be required when the contingency against which it was set up materialises. (Paragraphs 973-976 of Note 5 of Part IV discuss the kind of investments that should be selected for the different sorts of reserves.)

781. The operation of recording the investments will be a quite separate one and will be performed by the book-keeper when he receives the blue copy of a payment voucher (FNI) for the purchase of the investment, or the transfer of the cash to a deposit account at the bank, or the application in some other way of the cash made available.

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Account 50 (Income and Expenditure Account)

Account 64 (Social Insurance Fund)

(See Note 5 of Part IV, paragraphs 970-972)

782. As explained in paragraphs 970-972 of Note 5 of Part IV, the Social Insurance Fund is the basic fund of the Institution. All income is deemed to be paid into it and all expenditure is deemed to be made out of it. In fact, for convenience, the income and the expenditure are, of course, recorded in separate accounts, but these are amalgamated, at the end of an accounting period, to form the Income and Expenditure Account (50) for the period, which will show a credit balance if there has been more income than expenditure, or a debit balance if expenditure has exceeded income.

783. The balance of the Income and Expenditure Account will ultimately be transferred to the Social Insurance Fund, so that in the final Balance Sheet the credit balance of the Social Insurance Fund will appear as the balancing figure on

the Liabilities side and will represent the net worth of the Institution - that is, the total value of all the assets, of whatever kind, which are shown on the Assets side, less the total amount of all the liabilities which are shown on the Liabilities side.

784. The book-keeping operations relating to the making of these closing entries and the method of showing the Social Insurance Fund in the Balance Sheet are explained in Section 6 below.

PART III

Section 5 - Application of Accounting Provisions to Sub-Accountants at Local Offices, Hospitals, etc.

(See Notes 2 and 12 of Part IV)

785. A "sub-accountant" is an officer of a subsidiary unit of the Institution who is responsible for accounting to the Central Office. He would usually be the senior officer of the Finance and Accounts Section stationed in the unit, but in the case of a small unit such as a local office where there might not be an officer of the Finance and Accounts Section of sufficiently high grade to assume the responsibilities of acting as the sub-accountant, the officer in charge of the office might be required to act as such.

786. Each separate unit of the Institution should keep a separate and self-contained system of accounts, on the double-entry system, connected by means of a Current Account (Code No. 70) with the main accounts of the Institution kept at the Central Office. Thus, each sub-accountant will open an account entitled "Central Office Current Account", and the Central Office will open as many current accounts as there are sub-accountants, each entitled "..... Local Office Current Account", "..... Hospital Current Account" etc.

787. As explained in paragraphs 769-771, these pairs of current accounts (at the office of the sub-accountant and at the Central Office) will be complementary, and should be kept in alignment, debit balances of the one being equal to credit balances of the other. If by reason of "items in transit" or for any other reason the balances are not exactly equal at the end of any accounting period the cause or causes of the discrepancy must be ascertained and action taken which will bring the balances into alignment - see e.g. paragraph 820.

788. The provisions of Part II and the foregoing sections of Part III apply to the accounts of sub-accountants as much as to the Central Office accounts. The procedure relating to payments, receipts, and transfers, and the safeguards against error or fraud dealt with in Sections 3 and 4 of Part II must be observed as carefully at the subsidiary offices as at the Central Office and the accounting controls dealt with in Section 5 of Part II should be applied within the unit in so far as they are appropriate.

789. While flexibility is an essential feature of any good accounting system, it will be convenient to arrange, where possible, that certain types of transaction should be carried out only by the Central Office and certain other types of transaction only by local offices or other subsidiary units. This will not rule out the occasional exception where practical considerations justify it, or variation of the arrangements by the Director-General in the light of experience.

790. At the outset, however, the following types of transactions might be authorised and carried out only at the Central Office:

Payments for supplies of all kinds, including pharmaceutical products and other medical supplies, printing, stationery and publications - except where for practical reasons local purchase is authorised, and except for "petty cash" items.

Rents - payable or receivable.

Transfers to reserves.

Investments, including collection of income derived therefrom.

Insurance and depreciation of assets.

All debits to Losses Account.

791. As provided in the Handbook of Social Insurance Administration the sale of insurance stamps to employers and the payment of cash benefits might be dealt with only at local offices.

792. Other types of item will be dealt with both at the Central Office and at offices of sub-accountants. These will include:

Salaries and allowances of staff.

Payments for lighting, heating and water.

Postage, telegrams and telephones.

Other running expenses of offices.

Transfers to Losses Suspense Account.

Budgetary Control (See Note 2 of Part IV)

793. When the estimates for the ensuing year are approved by the Board they will set limits to the expenditure which the Institution as a whole is authorised to incur under each of the heads of expenditure. In order to ensure that these limits are not exceeded - for example through simultaneous expenditure at the Central Office and one or more of the local offices - and for control purposes generally, Finance and Accounts Division (Central Office) will, in the case of each expenditure head under which payments are likely to be made both by Central Office and the local offices (see preceding paragraph) apportion the amount of the approved estimate for the head of expenditure between the Central Office and each of the local offices.

794. The amounts thus apportioned will, after approval by the Director-General, be notified by him to the Heads of Divisions at the Central Office and to the managers of the local offices, and will set limits to the expenditure which the Central Office and each of the local offices are respectively authorised to incur under the particular head of expenditure. The internal auditor of the local office will be responsible for watching the progress of expenditure at the local office and reporting if and when the amount apportioned to the local office under any head is likely to be exceeded

795. If it should be necessary for the Central Office or any of the local offices to exceed the amount thus apportioned to the particular office, application should be made to the Director-General, who may, within the total provision approved by the Board for the head of expenditure, reappportion such total provisions, and such reappportionment will take the place, for all purposes, of the original apportionment.

796. If the Director-General is unable to reappportion the total amount in favour of the office which has made the application, he will consider whether application should be made to the Board for an increase in the amount originally provided for the Institution as a whole. Until such application has been approved by the Board the proposed expenditure must be deferred.

Code Numbers of Accounts

797. Each sub-accountant at a subsidiary office will open such of the accounts listed in Section 2 of Part III as may be required, using the Code Numbers given in the list, or any other system of numbering the accounts that may be adopted. This is not likely to cause any confusion where the subsidiary office and the Central Office are situated in different premises. In the event of a subsidiary office being located in the same building as the Central Office, any possible confusion could, if thought necessary, be avoided by using a prefix before the code number of the account kept by the subsidiary office, e.g. A 21-03 for expenditure on overtime at the subsidiary office.

Monthly Financial Statement to be submitted to Central Office (FN17)

798. The transactions carried out and recorded by sub-accountants will be incorporated in the books of the Central Office by means of a monthly financial statement which every sub-accountant will submit to the Central Office as soon as possible after the end of the month to which it relates. In view of the importance of enabling the Central Office to prepare the monthly accounts of the Institution while the information which they contain is still fresh - that is, at the latest before, say, the middle of the following month - the work of preparing the sub-accountants' monthly statements should be so organised at each subsidiary office that they are in the hands of the Central Office within seven days at the most from the end of the month to which they relate.

799. These monthly statements will be submitted on form FN17, which will be signed by the sub-accountant, and, after examination and check of their correctness, by the internal auditor of the subsidiary office.

800. First of all the cashier will complete Part I of the form (Abstract of Insurance Stamps Stock Record). At the same time the book-keeper, as soon as he has posted the last of the transactions for a particular month, including adjustments for unpaid amounts notified on forms FN12 (Amounts authorised on payment vouchers but unpaid at end of month) and FN13 (Cash benefits authorised on payment schedules but unpaid at end of month) - see paragraphs 735-740 - will draw up a Trial Balance of his accounts as at the end of the month, including in the Trial Balance the balances of the Cash and Bank columns of the cash book at the close of business on the last day of the month, which he will ascertain from the cashier.

801. If the statement of balances does not balance it will be necessary to find the mistake or mistakes which prevent it from balancing and to make the necessary corrections. This must be done before proceeding further. (In this connection it should be noted specially that it is inadmissible to leave a discrepancy uncorrected on the grounds that the discrepancy is a small one, since even the smallest discrepancy may represent large errors of nearly equal amounts on different sides of the accounts.)

802. If he is satisfied that the statement balances, the book-keeper will insert the balances on the accounts - in pencil at this stage - and will complete Part II of form FN7 by listing the amounts of the individual balances. He will prepare supporting schedules in accordance with the requirements indicated in Part II of the form and will then pass the form, with the schedules attached, to the sub-accountant for signature of the certificate in Part III of the form.

803. The form will then be passed to the internal auditor, who will check the correctness of the statement of balances in Parts I and II of the form and will himself complete the Bank Reconciliation Statement in Part IV of the form from the statement of the subsidiary office's current account with the Bank, which he will have received direct from the Bank - see paragraphs 344-347. The internal auditor will then sign the certificate in Part V of the form and dispatch the form to the Central Office.

804. When the internal auditor has completed his check of the statement, signed the certificate in Part V of the form and dispatched the form to the Central Office, the book-keeper, by means of a transfer (FN4) will close all of his ledger accounts (i.e. excluding the cash book balances) by transferring the balances in one net figure to the Central Office Current Account, thus recording the fact that all of the balances except the "Cash" and "Bank" balances of the cash book have been transferred to the Central Office books. He will thus be left, at the beginning of the new month with only one account open - the Central Office Current Account - the (credit) balance of which will be equal to the sum of the "Cash" and "Bank" balances of the subsidiary office cash book.

Monthly Statement of Consumption of Pharmaceutical Products etc. FN18 (A, B and C)

(See Note 12 of Part IV)

805. If the subsidiary office is a hospital or dispensary or other unit at which pharmaceutical products, medical appliances or other medical supplies are issued to insured persons on doctors' prescriptions, (Form MC14) or issued otherwise on delivery notes (FN6), e.g. X-ray films, forms FN18 (A, B and C) will also be completed monthly to enable the Central Office to evaluate the monthly consumption of these consumable medicines, stores, etc. This will not, however, be necessary in the case referred to in paragraphs 490-491.

806. Part I of each of the forms will be used for items of which individual issues are recorded on the stock record cards and will show total issues of each item for the month as so recorded. Part II will be used for items of which individual issues are not so recorded (consumption being ascertained by deducting closing stock of each item at the end of the month from opening stock at the beginning of the month plus receipts during the month) - see paragraphs 485-486. The forms will be completed by the pharmacist responsible for the custody and issue of the items and for maintaining records on the stock record cards. He will pass the forms to the sub-accountant for signature of the certificate in Part III of the forms.

807. The forms will then be passed to the internal auditor, who will test-check from a proportion of the stock record cards the correctness of the issues as stated in Parts I and II of the forms. He will complete the internal auditor's certificate in Part IV of the forms and dispatch them to the Central Office.

808. For the reason stated in paragraph 798 above in relation to Form FN17, it is of equal importance that the work of completing forms FN18 should be so organised that the forms are in the hands of the Central Office within seven days at most from the end of the month to which they relate; see, however, in this connection, paragraphs 493-494.

809. At the end of each of the first 11 months of the financial year Part I of the Forms FN18 will be completed, as stated above, from the statements of issues as recorded on the stock record cards (FN19). At the end of the last month of the financial year, however, the issue for the year as stated on the stock record card for each item must be verified by a stock-taking in which the quantity, weight, volume, etc. (as appropriate) of each item remaining in store will be ascertained by physical examination and compared with the quantity, etc. recorded in the "Balance" column of the stock record card.

810. Any discrepancies will be dealt with in accordance with the procedure described in paragraphs 419-432. If it is decided, under the requisite authority and with the concurrence of the internal auditor, to adjust the stock record card without raising a debit to a Losses Suspense Account - see paragraphs 429-430 - that will be done and the statement of issues of the item, as entered on Parts I of the Forms FN18 will be increased (or decreased) by the amount of the discrepancy. If it is decided that the discrepancy cannot be accepted without further inquiry, an accounting transfer will be authorised on Form FN4 directing the value of the amount of the deficiency (or its approximate value) to be debited to Losses Suspense Account (75) and credited to Central Office Current Account (70).

811. It will be evident that this end-of-year stock taking will be a task of some magnitude. It should therefore be commenced sufficiently early before the end of the year to ensure that the whole field will be completed by the end of the year. The stocks of items thus verified before the end of the year will be deemed, when adjusted for subsequent receipts and issues between the date of the stock taking and the end of the year, to be the stock in hand as at the latter date.

812. A special effort should be made so to organise the stock taking and to maintain the arranged time-table that the submission of the Forms FN18 for the last month of the financial year is not delayed beyond the period of seven days allowed at the end of the other months - see paragraph 808 above.

PART III

Section 6 - Preparation of Monthly and Annual Accounts

(See Notes 4, 5, 6, 7, 12, 13 and 14 of Part IV)

Chapter 1 - Monthly Accounts

813. As soon as the Central Office book-keeper has posted the last of the Central Office transactions for a particular month, including the adjustments for amounts notified on Form FN12 as authorised on payment vouchers but unpaid at the end of the month, he will direct his attention to the income accounts. Any income already due to be received but not received will be credited to the appropriate income account and debited against the debtor, in the Sundry Debtors Ledger, by means of a Form FN4.

814. The treatment of income "earned", although not yet due to be received, is discussed in Note 7 of Part IV, paragraphs 997-999. If such income is appreciable the book-keeper will deal with it at the end of each month, but if it is relatively small any adjustments in respect of accrued amounts might be confined to the end of the year and shown only in the annual accounts.

815. Whether the adjustment is made at the end of every month or only at the end of the year the method of making the adjustment is as follows. The accrued amount should be entered on the credit side of the appropriate income account and "brought down" on that account as a debit balance - which will be included in "Sundry Debtors and debit balances" as an asset in the Balance Sheet at the end of the month, or the year. (When the next payment of the income takes place the amount received will be credited to the income account in the ordinary way, and the portion applicable to the old month or year will thus be automatically set off against the debit balance brought down, thus clearing it and leaving a net credit representing the income attributable to the new month or year.)

816. The book-keeper will then ascertain the balance of each account for the purpose of taking out a Trial Balance. He will include in the Trial Balance both of the "balances" of income accounts which include accrued amounts (the debit balance brought down to the new period, as explained in the previous paragraph, and the normal credit balance representing the income - received or due - to date). He will also, of course, include in the Trial Balance the "Cash" and "Bank" balances which he will ascertain from the cashier.

817. If the books do not balance it will be necessary to find the mistake or mistakes which prevent them from balancing and to make the necessary corrections. This must be done, however small the discrepancy - see in this connection paragraph 801 - before proceeding further.

818. If satisfied that the books balance the book-keeper will rule off the accounts, but will leave room for the insertion of amounts to be posted from Forms FN17 (the monthly statements to be received from sub-accountants) and for other adjustments (e.g. the transfers based on Form FN23), and also for the insertion of the final balance of the account. Transactions relating to the new month will then be posted "below the line" to avoid confusing the ascertainment of the final balance for the old month.

Posting the Forms FN17

819. When the Central Office book-keeper receives from the internal auditor a sub-accountant's monthly statement on Form FN17 he will first ascertain that the balance of the Central Office Current Account as shown on the FN17 agrees in amount with the balance of the current account of the sub-accountant in his own books (the one being, of course, a debit balance and the other a credit balance). If there is a discrepancy the cause will have to be discovered and any mistakes corrected.

820. If the discrepancy is due to a remittance having been sent from one of the two offices and not having been received by the other office, and therefore not having been recorded by the other office, the matter will be adjusted by the Central Office making a transfer of the amount of the discrepancy (by means of Form FN4), debiting Remittances in Transit Account (80) and crediting the subsidiary office Current Account. This will remove the discrepancy whether the remittance has been made by the subsidiary office to the Central Office or vice versa.

821. The book-keeper will then be ready to incorporate in the Central Office books the transactions for the month as notified on the Form FN17. He will post the FN17s in turn, entering on the relevant Central Office accounts all of the amounts stated in Part II of Form FN17 except the "Cash" and "Bank" balances and the balance of the Central Office Current Account. The double entry will be completed by posting the balancing figure (the difference between the total debits posted and the total credits) to the Current Account of the subsidiary office.

822. This will have the effect of transferring to the books of the Central Office all the subsidiary office balances except "Cash" and "Bank" and therefore each subsidiary office current account in the books of the Central Office will then exhibit a debit balance equivalent to the aggregate of the "Cash" and "Bank" balances at the particular subsidiary office. (The converse process at the subsidiary office is described in paragraph 804.)

823. If it is thought that it would simplify these book-keeping operations, the debits and credits required to be made in the books of the Central Office could be shown on a transfer form (FN4) for each subsidiary office, to which the FN17 would be attached. The posting reference for each entry would then be the number of the FN4. Otherwise the reference would be to the particular FN17.

Forms FN18 (A, B and C)

(See Note 12 of Part IV - Pharmaceutical products and other medical supplies)

824. One of the tasks of the Finance and Accounts Division at the Central Office will be to evaluate monthly the consumption of pharmaceutical products, medical appliances, X-ray films and medical supplies, as notified monthly on forms FN18 (A, B and C) which will be submitted by or in respect of each unit from which issues of these commodities are made (see paragraphs 805-807 and 490-491).

Valuation of Consumption of Pharmaceutical Products etc.

825. It will be necessary to maintain price lists for each product which is given a separate code number. These should be compiled from the invoices for stocks purchased, and kept up to date as and when invoiced prices change.

Where supplies of a particular product have been obtained at different prices a weighted average price should be calculated at which stocks in hand at the end of the year will be valued. Consumption of the product during the following year will be valued at the weighted average price thus arrived at, but at the end of that year a new weighted average will be calculated, which will take into account stocks in hand at the beginning of the year (as previously valued) and purchases during the year. This will give the price at which consumption during the next year will be valued, and so on.

826. When all the FN18s for the month have been evaluated and the total valuations have been carried, via the summary on the last sheets for the month of FN18A, FN18B and FN18C respectively, to a grand summary for the Institution as a whole on Form FN23, transfers will be made, by means of a Form FN4 to which the Form FN23 will be attached, from Accounts 61-01, 61-03, 61-05, and 61-07 respectively, to Accounts 05-01, 05-03, 05-05 and 05-07 respectively. The balances of the first-mentioned group of accounts will then be ready to be carried down to the beginning of the new month.

Depreciation and Reserves

(See Notes 4 and 5 of Part IV)

827. As suggested in paragraph 790, transfers to reserves and charges for insurance and depreciation of assets might be dealt with only at the Central Office. Insurance would be charged in the month or months in which the premiums were paid, but transfers to reserves and charges for depreciation are matters which it is customary to deal with by making accounting transfers at the end of the year, before preparing the final accounts for the year.

828. If the monthly accounts are to be treated as provisional accounts designed mainly to exhibit seasonal fluctuations in benefit expenditure or collection of contributions, and the progress of outgoings and income in relation to the budget estimates, there would be little to be gained by making adjustments each month for reserves and depreciation. This could, of course, be done, if desired, by making transfers at the end of each month of one-twelfth of the annual amounts or estimated annual amounts of the depreciation and provision for reserves required, but it

might well be considered sufficiently satisfactory to defer the making of these adjustments until the end of the year and to cover the matter by a note on the monthly accounts to the effect that these matters are being deferred until the preparation of the annual accounts at the end of the year. On the assumption that this will be done the necessary transfers are dealt with in paragraphs 863-871 below.

Preparation of the Income and Expenditure Accounts

829. Before the Income and Expenditure Account for the month is prepared a second Trial Balance should be drawn up and, if it balances, the book-keeper should insert the balance of each account in ink, rule off the account and carry down the balance as the opening item of the new month. He will then be ready to compile the Income and Expenditure Account.

830. In the case of schemes where the Law requires separate accounts to be kept for each branch of insurance, or when, in the absence of such statutory provision, the single contribution payable in respect of each insured person is divisible or is to be regarded as divisible between different branches of insurance and, as a separate item, the cost of administration (see paragraph 207), the book-keeper will prepare a Consolidated Income and Expenditure Account for the Institution as a whole, and separate Income and Expenditure Accounts for each branch and for administration. Only a Consolidated Income and Expenditure Account will, of course, be required where the contribution is not regarded as divisible in definite proportions between the different branches, or where for other reasons separate branch accounts are not desired.

831. The Income and Expenditure Account, or Accounts, should be in respect of the period from the beginning of the financial year to the last day of the month just ended.

832. Where Branch Income and Expenditure Accounts are required, it is a valuable simplification if "Administration" can be treated as one of the "Branches". Otherwise it will be necessary to make more or less arbitrary apportionments, between the branches, of all administrative expenditure which is common to more than one branch, e.g. salaries, cost of maintaining offices, and most other expenses of administration. If this cannot be avoided, a suitable method might be to apportion half of the administrative expenditure in proportion to the contribution income of the branches concerned and the other half in proportion to the benefit expenditure of the branches.

833. Whether there is an account for "Administration" as a separate "Branch" or not, expenditure on the maintenance of properties let (Accounts 31-01, etc.) should be shown as a separate item clearly distinguishable from the charges in the group under Code No. 25, for the reasons stated in Note 13 of Part IV (Expenditure on the maintenance of properties let).

834. Both in the sectional and the consolidated accounts the items of income and of expenditure should be grouped so as to correspond with the heads under which the budget for the year was approved by the Board, and to facilitate comparison of income or expenditure to date with the corresponding budget provision, a column to the left of the narrative should be provided in which will be shown the proportion, to date, of the budget provision for the year in respect of each item.

835. It will probably be found convenient to prepare first the Consolidated Income and Expenditure Account and afterwards to subdivide the items which will require to be shown in the sectional Income and Expenditure accounts.

Income

836. The method of showing income from insurance contributions in the accounts to be presented is discussed in Note 6 of Part IV, and on the basis suggested therein, the amount to be shown will be the balance of Account 02-02 (Sale of insurance stamps, or (pay-roll system) Receipts in cash from employers) and, separately, the balance of Account 02-06 (Cash receipts from employers in arrears).

837. In addition, a footnote will be added, referenced by an asterisk to the amount shown in respect of Sales of insurance stamps (or, under the pay-roll system, Receipts in cash from employers). The footnote will show:

Total amount of contributions due but unpaid at end of month (or year)	....
<u>Less</u> Total amount written off as irrecoverable during year to date	....
	<hr/>
Balance in course of collection	....
	<hr/> <hr/>

838 The first figure will be obtained from the balance of Account 02-04 and the second figure from the balance of Account 35. The difference between these two figures, shown as "Balance in course of collection" should be equal to the aggregate of the balances of the personal accounts of employers in arrears in the "Employers in Arrears Ledger", and before the Income and Expenditure Account is submitted to the internal auditor a careful check should be made to establish that this is the case.

839. If it is decided to adopt the alternative method of taking credit in the monthly and annual accounts for contributions established as due but not yet received (See Note 6 of Part IV, paragraph 988 and Part III, Section 4, paragraph 727) a Reserve for Bad Debts would be established at the end of each year (or the amount of such a Reserve would be appropriately increased) and bad debts written off during the following year would be charged against the Reserve. In the Income and Expenditure Account the amount shown as income from contributions would be the total of the balances of accounts 02-02, 02-04 and 02-06, and on the expenditure side the amount transferred at the end of the year to the Reserve account would be shown as debited. In the Balance Sheet the Assets side would include in Sundry Debtors the aggregate balances of the personal accounts in the Employers in Arrears Ledger, shown separately, if desired, from other sundry debtors, and the Liabilities side would show the amount of the Reserve for Bad Debts.

840. Below the two items in respect of income from insurance contributions - see paragraph 836 - there will be shown, if applicable, the Government contribution, and then the interest, rents, or other income derived from the investments and other assets of the Institution (Accounts 06-02, etc.) the different types of income being shown separately; and, finally, any other income (08-02, 08-04), its nature being stated.

841. For the sectional Income and Expenditure Accounts there will be no advantage to be gained by distinguishing, in respect of contribution income, between regular income (Account 02-02) and amounts received in liquidation of arrears (Account 02-06) - the two amounts being given separately in the consolidated account. Accordingly, for the sectional accounts, the total of the two amounts would be divided - in the proportions in which the weekly insurance contribution is divisible or was deemed to be capable of allocation between the separate branches and administration when the financial basis of the scheme was established (see paragraph 207).

842. The Government contribution (if any) will be divided in the same proportions as insurance contributions payable by employers. Interest, rents and other income from investments will follow the allocation of the property or investments - e.g. interest from the investments of a Medical Care Development Fund would be allocated to the Medical Care Income and Expenditure Account. Other income will be allocated on a suitable basis in relation to the nature of the incomes.

Expenditure

843. Expenditure will already be classified in the ledgers in accordance with the heads used in the budget as approved, and no difficulty should be experienced in grouping the items in relation to these budget heads.

844. As explained in Note 12 of Part IV, the charge in the Income and Expenditure Account in respect of pharmaceutical products, medical appliances, X-ray films and other medical supplies will be the cost of the amounts of these commodities consumed during the period. This will be shown by the balances of Accounts 05-01, 05-03, 05-05 and 05-07.

845. If sectionalised Income and Expenditure accounts are required the Medical Care Income and Expenditure Account will be debited with these balances, the balances of the other accounts in the group 01 to 11 (odd numbers), and the balance of 10 (debit or credit). The sectional accounts for the other branches of insurance will be debited with the relevant items in the group under Code No. 17, and the Administration sectional account with the balances of accounts 21, 23, 25, 27, 29, 35 and 37.

846. The treatment of the balances of the accounts in group 31 is discussed in Note 13 of Part IV - Expenditure on the maintenance of properties let - in which it is suggested that these amounts should be shown separately in the Income and Expenditure Account, and if sectionalised accounts are required that they should be debited in the "Administration" account unless the particular property is regarded as an investment of one of the other branches of insurance, in which case both the rents (gross) and the expenses of maintenance would be carried to the Income and Expenditure Account of the particular branch. Insurance contributions refunded (Account 33) would be split between the sectionalised accounts in the same proportions as for income from insurance contributions - see paragraph 841.

847. The balances of the sectional accounts and the balance of the consolidated account will be shown as "Balance, transferred to the Social Insurance Fund".

Capital Expenditure Account

848. As the budget will include provision for capital expenditure as well as revenue expenditure it will be necessary to prepare a Capital Expenditure Account at the end of each month to record the capital expenditure incurred from the beginning of the year in relation to the budget provision. The account could be sectionalised, if desired, as between Medical Care and Administration, but a single consolidated account will probably be sufficient.

849. The account will be debited with expenditure which, during the current year, has been charged to Accounts 59, 61, 63, 65, 67, 69, 71 and 73, and against each item there will be stated, in a column to the left of the narrative column, the corresponding budget provision for the year. This will probably give a better view of the position in relation to the budget than stating the proportionate part, to date, of the budget provision for the year, since in the case of capital expenditure many of the amounts approved, e.g. for investment, will be expended in one lump sum.

Balance Sheet (at the end of months other than the last of the financial year, as to which see paragraphs 885-889 below)

(See Note 14 of Part IV)

850. The balances outstanding in the ledgers other than those accounted for in the Income and Expenditure Account or Accounts will then be grouped and shown in the Balance Sheet, including, of course, the amounts shown in the Capital Expenditure Account. The Balance Sheet will be drawn up and dated "as at" the end of the month.

851. Unless the Law definitely prescribes the maintenance of separate Funds for the different branches of insurance there is not likely to be any advantage to be gained by compiling sectional balance sheets, since that would involve making a number of more or less arbitrary apportionments of some of the assets and liabilities (e.g. cash). One single consolidated balance sheet should therefore be sufficient.

852. In the event of separate balance sheets for the different branches of insurance being required under the Law it is undesirable in any case that a separate balance sheet for an "administration" branch should be compiled showing an "Administration Fund" to which a surplus on the year's working may have been credited, since this might imply that such a surplus would be available to augment the budgetary provision for administration for the current or a future year. Instead, any such surplus emerging as a credit balance on the Administration Income and Expenditure Account should be distributed between the Insurance Funds of the other branches of insurance in appropriate proportions - such as, for example, half in proportion to the benefit expenditure and half in proportion to the contribution income of these other branches.

853. The assets should be shown in descending order of liquidity and the liabilities in descending order of "payability".

854. The order of the assets might thus be:

cash in hand;

balances on current account at banks;

any balances on deposit account at banks;

any amounts due from sundry debtors, including debit balances on imprest and current accounts;

any short-term investments;

any medium-term investments;

any long-term investments;

stocks in hand of pharmaceutical products, medical appliances, X-ray films and other medical supplies;

any other unexhausted debit balances carried forward;

furniture and equipment of hospitals, dispensaries and other premises used in connection with the provision of medical care;

office furniture and equipment;

ambulances;

other motor vehicles;

properties let;

office premises;

hospitals, dispensaries and other premises used
in connection with the provision of medical care;

preliminary expenses;

any remaining miscellaneous debit balances
(on suspense accounts, etc.).

855. The debit balances in the Employers in Arrears Ledger (Accounts 55-01, etc.) and on Account 35 (Amounts due from employers in arrears written off as irrecoverable), and the credit balance on Account 02-04 (Amounts due from employers in arrears) will be ignored since the information which they contain is given in the footnote to be appended to the Income and Expenditure Account (see paragraphs 837-838 above). As pointed out in paragraph 838, the credit balance of Account 02-04 will be equal to the sum of the debit balances on Accounts 55-01, etc., and Account 35. Ignoring these items will therefore not affect the balance of the Balance Sheet as compiled.

856. With regard to the fixed assets, if projects of construction, adaptation etc. are in progress, an item for "Work in Progress" may be shown separately from the figure for completed expenditure. In that case the balances of Accounts 71-03 and 71-05 would be combined for the "Work in Progress" item, and similarly for Accounts 73-03 and 73-05.

857. The order of the items on the Liabilities side of the Balance Sheet might be:

Sundry creditors for cash benefits;

Other sundry creditors;

Contingencies Reserve;

Any other reserves; and, finally,

Social Insurance Fund.

858. The amount of the Social Insurance Fund would be shown as follows, the details leading up to the final figure being given in an inner column:

Amount of Fund at beginning of year	.....
<u>Add Balance of Income and Expenditure Account</u>	<u>.....</u>
Amount of Fund at (end of month)	<u>.....</u>

859. If it should happen that the Income and Expenditure Account showed a debit balance, the amount of the debit balance would, of course, be shown as deducted instead of added.

860. The monthly Income and Expenditure Account (or Accounts), the Capital Expenditure Account and the Balance Sheet will, after signature by the Director-General, be submitted to the internal auditor, who will examine them, certify them as correct (subject, if necessary, to any qualifications or comments he may desire to make) and submit them to the Board, Minister, or other governing authority, as the case may require.

Chapter 2 - Annual Accounts

861. The only way in which the annual accounts to be prepared at the end of the twelfth month of the financial year will differ from those prepared at the end of the other months will be that the annual accounts will incorporate certain adjustments which require to be made once a year. The procedure described in Chapter 1, above, for the preparation of the monthly accounts should, therefore be followed in its entirety, and then the adjustments to be explained in this chapter require to be made in addition.

862. After posting the last of the Central Office transactions of the old year, including the normal adjustments in respect of income already due to the Institution but not yet received, and unpaid amounts notified on Form FN12 (see paragraphs 813-815) the book-keeper will take out a Trial Balance. When satisfied that it balances he will open fresh accounts for the new year, preferably in fresh ledgers (always in fresh binders if loose-leaf ledgers are in use) and will then be able to post transactions of the new year to the new year accounts without complicating the posting of the remaining old year transactions to the old year accounts. These will include the transactions of the subsidiary offices for the last month of the old year, which will be posted from Forms FN17 and FN23 (see paragraphs 821 and 826) and the adjusting entries for the old year now to be explained.

Depreciation

(See Note 4 of Part IV)

863. The rates of depreciation to be charged will probably be prescribed in the Financial and Accounting Regulations. If not, they should be determined by the Board. Depreciation will be charged by means of a transfer form (FN4) which the book-keeper will post by debiting the appropriate Depreciation Account and crediting the asset account (e.g. debit 03-11, credit 71-01).

864. It is usual to prescribe uniform rates of depreciation for different groups of assets. In ordinary circumstances the following rates would be suitable:

Buildings (new)	2 to 2 1/2 per cent. per annum
Buildings (old) - according to the estimated additional effective life of the buildings	5 to 10 per cent. per annum
Office furniture and equipment	5 to 10 per cent. per annum
Medical equipment	7 1/2 to 10 per cent. per annum
Motor vehicles, including ambulances	20 per cent. per annum.

865. Where an asset is acquired in the course of a year a proportionate amount of the annual rate of depreciation should, in strictness, be charged according to the date when the new asset comes into use. For practical purposes, however, it will probably be sufficient to charge for the first year according to the number of complete quarters during which the asset has been in use.

866. Where capital expenditure is incurred by the Institution in any year for the improvement, extension or adaptation of a building the simplified rule suggested in the preceding paragraph might be applied in that year to the new capital expenditure according to the number of complete quarters that remained after the completion of the work. The annual rate to be applied to such expenditure, however, should be such as will write off the capital expenditure over approximately the remaining life of the building as a whole.

867. Capital expenditure incurred for additions to other groups of assets should be depreciated at the same annual rate as that applied to the group concerned, the charge for the first year being determined as suggested in paragraph 865 above.

868. Expenditure on maintenance, spare parts, repairs, etc. must not be treated as adding to the value of the asset but merely maintaining such value, and such expenditure must therefore be treated as revenue expenditure chargeable to the appropriate "odd number" account between 03 and 31 inclusive.

869. New items of furniture or equipment which cost under, say, [U.S.\$ 20 00] might also be treated as revenue expenditure chargeable as in the preceding paragraph. Only items costing individually more than that amount would be treated as additions to assets.

Reserves

(See Note 5 of Part IV)

870. The reserves to be created, or increased, and the amounts to be allocated for this purpose, will be provided for in the budget as approved. In any event, the book-keeper will receive his instruction on a transfer form FN4 which will direct him to debit the Income and Expenditure Account (e.g. 50-60) and credit the particular reserve account (e.g. 58).

871. The investment of the amount thus set aside will be a separate operation, which will be notified to the book-keeper when he receives the payment voucher FN1 for the purchase of the investment or the placing of the money on deposit account at the bank or for the disposal of the money in any other form of investment desired. The book-keeper will post the amount indicated on the payment voucher to the debit of the appropriate investment account in the Buildings, Equipment and Investments Ledger.

Preliminary Expenses

(See paragraphs 763-767)

872. As explained in the paragraphs referred to, the budget for the first year of the operation of a scheme of social insurance will probably provide for the write-off of the whole or part of the intangible asset represented by the debit balance left on the Preliminary Expenses Account (77) after the amounts representing tangible assets have been transferred to the appropriate asset accounts. In any event the book-keeper will receive instructions regarding any end-of-year write-off, whether at the end of the first or any other year, by means of a transfer form FN4 which will direct him to debit the Income and Expenditure Account (50) and credit Preliminary Expenses Account (77).

873. The surplus income thus made available will be applied towards repaying the loan or advance out of which the expenditure would have been met at the time - before the Institution had acquired any funds of its own. The payment voucher which the book-keeper will receive will direct him to debit, to the loan or other account in the Sundry Creditors Ledger, the amount repaid.

874. If it should happen that the amount made available to the Institution to meet preliminary expenses does not require to be repaid - that is, that it represents an initial contribution or gift to the Institution, probably from the government - the amount received (probably in instalments as the expenses were incurred) would have been credited to the Social Insurance Fund Account (64) instead of to an account in the Sundry Creditors Ledger. In that case, the balance representing the intangible asset left on Preliminary Expenses Account after the amounts representing tangible assets have been transferred to the appropriate asset accounts might with propriety be written off directly against the Social Insurance Fund (64) instead of via the Income and Expenditure Account (50).

875. This could be done either when the scheme commences to operate, or at the end of the first year (debit 64, credit 77 by means of a Form FN4). In any case the preliminary expenses, even if written off wholly in the first year, should be classified in some detail in an inner column of the first Balance Sheet for purposes of information - for example, as under:

Preliminary Expenses

Salaries	.....
Office Expenses	.....
Printing	.....
Publicity Expenses	.....
etc.	.....
	<hr/>	
	
Less amount written off	<hr/>	.....

Pharmaceutical Products, Medical Appliances,
X-ray Films and Other Medical Supplies

(See Note 12 of Part IV).

876. At the end of each of the first eleven months of the financial year the amounts to be shown in the Balance Sheet in respect of these items will be the balances of the accounts in group 61 after crediting the value of amounts consumed, as explained in paragraph 826. At the end of the twelfth month, however, the stocks in hand, represented by these balances, will be valued by the method of calculating a weighted average cost of the stocks, as explained in paragraph 825, and will be shown in the Balance Sheet at the values thus calculated.

877. Where there have been price changes affecting supplies purchased during the year and debited to the accounts in group 61 at these new prices there will probably be a difference between the values of stocks in hand calculated as explained in the preceding paragraph and the balances carried down on the group 61 accounts after crediting the value of the amounts consumed during the year.

878. Any such difference should be adjusted by means of a journal entry (FN4) crediting (or debiting) the purchases account and debiting (or crediting) an account (10) which might be called "Net adjustment on revaluation of consumable medical supplies". The balance of this account would be carried to the Income and Expenditure Account and, if sectionalised accounts are presented, would be shown also in the Medical Care Income and Expenditure Account.

979. It should be noted that this adjustment will at the same time serve two essential purposes. First, it will have the effect of correcting the value at which the stocks in hand are shown in the end-of-year Balance Sheet, and at which, in consequence, they are carried forward to the new year. Secondly, it will correct any overcharge or undercharge in the Income and Expenditure Account for the cost of pharmaceutical products, etc. consumed during the year which may have resulted from valuing consumption during the year at the values fixed at the end of the preceding year.

Unexhausted Balances Carried Forward

880. If at the end of the year the stocks of such things as stationery and office supplies, forms, uniforms for subordinate staff, etc. remaining in hand are considerable, it may be desirable to "bring down" balances to the

new year, on the relevant account or accounts, e.g. 25-25, 25-27, 25-29, etc., representing the value of the unexhausted stocks, as ascertained from the end-of-year stocktakings. The amounts transferred to the Income and Expenditure Account from these accounts would then represent consumption during the year and the balances carried forward to the new year would be shown in the Balance Sheet.

881. The alternative, and easier method is to treat such items as consumed when purchased, and unless such treatment would falsify the Income and Expenditure Account for the year to an appreciable degree this would be permissible.

Income and Expenditure Account

882. The annual Income and Expenditure Account (or sectional Income and Expenditure Accounts and a Consolidated Income and Expenditure Account) will be prepared on the same lines as explained in Chapter 1 except that, in addition, effect will be given to the adjustments made only at the end of the year, as explained in this chapter.

883. If sectional accounts are prepared, depreciation of the relevant assets will, of course, be charged in the sectional accounts for Medical Care and for Administration. There is not likely, however, to be any advantage gained by subdividing the amounts transferred to Contingencies Reserve, or the amounts written off Preliminary Expenses, or the charges to Losses Account (37), which should therefore be shown as charges to the Administration Income and Expenditure Account. Transfers of surplus income to a specific Medical Care Development Fund would, however, be charged to the sectionalised Medical Care Income and Expenditure Account, and interest on the investments of the Fund would be credited to the sectionalised account.

Capital Expenditure Account

884. The annual Capital Expenditure Account will be prepared on the same lines as the monthly Capital Expenditure Accounts.

Balance Sheet

(See Note 14 of Part IV)

885. The annual Balance Sheet should be prepared in accordance with the directions suggested in Chapter 1 (paragraphs 850-860) and in observance of the principles enunciated in Note 14 of Part IV.

886. As suggested in Note 14, the fixed assets will be shown at the value stated in the previous year's Balance Sheet "less depreciation written off during the year". There should thus be an inner column in which the depreciation charged for the year will be shown as deducted, and the final valuation as at the date of the Balance Sheet will thus be exhibited in the outer column.

887. For the reason indicated in paragraph 1076 of Note 14 investments should be shown at cost price, but if at the date of the Balance Sheet the market value of the investments is below cost price a footnote should be added to the Balance Sheet stating the market valuation.

888. The ~~items~~ on the Liabilities side of the annual Balance Sheet will be shown as suggested in Chapter 1 (paragraphs 857-859) for the monthly Balance Sheets.

889. It may be advantageous, in order to facilitate comparison with the previous year, to include a column on the left-hand side of the narrative on both the Assets and the Liabilities side to show the corresponding figure which appeared in the previous year's Balance Sheet.

Submission for Audit

890. The annual accounts and Balance Sheet will be signed by the Director-General and submitted to the internal auditor, who will examine them and report to the Board the result of his examination. They will then be submitted to the external auditor for examination and report. The duties of the external auditor will probably be prescribed in the Social Insurance Law. He is likely to be required to certify on the accounts and Balance Sheet that he has examined them and, subject if necessary to any qualifications or comments he may desire to add, that he has found them correct.

Director-General's Report on the Financial
Operations of the Year

891. When the annual accounts and Balance Sheet are submitted they will usually be accompanied by an Annual Financial Report. The length of this report and the subjects with which it deals will depend on the desires of the Board and the appetite of the Board for detailed information. Some of the matters with which the report might deal are the following:

- (1) a summary statement of the total income and total expenditure of the year and the amount of the Social Insurance Fund at the end of the year;
- (2) any special features of the year - seasonal fluctuations, epidemics, the state of employment, developments of the facilities available for the provision of medical care, etc.;
- (3) any considerable variations between budget estimates and out-turn, and the causes thereof;
- (4) the principal results of cost-analysis, under such heads as are suggested in paragraph 110, and comparisons with the corresponding results for previous years;
- (5) the principal statistics relating to the year (unless a separate statistical report is presented) e.g. number of insured persons, number of registered employers, number of benefits awarded, etc. and comparisons with previous years;
- (6) a breakdown of contribution income in relation to the years in which it became due;
- (7) contributions in arrears at the end of the year, in relation to the corresponding figures for previous years;
- (8) details, which might be given in appendices to the report, of investments held; properties let; amounts of contributions due which have had to be written off as irrecoverable, and the causes; the larger items of losses which have occurred during the year, with a summary of the findings of the committee which investigated the causes, etc.

PART IV

Note 1 - Double-entry System of Book-keeping

901 The double-entry system of book-keeping is used almost universally for recording the transactions of all kinds of enterprises except the very simplest.

902. The alternative would be to use a single-entry system in which receipts and payments would be entered in a book resembling a cash book, perhaps with analysis columns in which to classify the principal kinds of receipts and payments.

903. A single-entry system of this kind has obvious limitations. It is not possible, otherwise than by way of independent memoranda, to record income due to the enterprise but unpaid, and payments due to be made by the enterprise but not yet paid. It is ill adapted to enable accounting adjustments to be made - e.g. the creation of reserves, the charging of depreciation of assets, the carrying-forward of unexhausted expenditure to the next accounting period or income received in advance.

904. This is not the place in which to provide a course of lessons in the mechanics of double-entry book-keeping, nor is it necessary, it is hoped, to justify the use of the double-entry system. As, however, it may not be possible to staff the Finance and Accounts Division entirely with officers who have had previous training in the theory and practice of double-entry book-keeping, the following very brief outline of the system is given as a basis for staff training of recruits to the Finance and Accounts Division who arrive with no knowledge of the subject, and as an aide-memoire for the staff of Divisions other than the Finance and Accounts Division.

Brief Outline of Double-entry System

905. Every transaction is regarded as having a double aspect - somebody pays, somebody receives, or somebody becomes due to pay and somebody becomes due to receive, or there is a transfer of value from one "account" to another.

Therefore each transaction must be entered twice - once as a debit, and once as a credit. If the Social Insurance Institution rents a building for office premises and pays the rent by cheque, each payment of the rent would be recorded by debiting Rent Account (i.e. the appropriate "expense" account) and crediting the "Bank" column of the cash book. An end-of-year adjustment charging, say, 20 per cent. depreciation on motor vehicles would be recorded by debiting the amount of the depreciation to Depreciation of Motor Vehicles Account (an expense account like Rent Account) and crediting Motor Vehicles Account, (thus reducing the debit balance of the Motor Vehicles Account).

906. It will be clear therefore that if at any time all the debits recorded in the books are added together and also all the credits, the two totals should agree. The balance of a particular account is the difference between the total of the debits on that account and the total of the credits; it is a debit balance if the debits add up to more than the credits and a credit balance if the credits exceed the debits. It will be clear also that if, instead of writing down all the debits recorded in the books and all the credits, the balances of all the accounts are written down, the debit balances in one column and the credit balances in another, the totals of the two columns should agree.

907. The list of balances compiled in this way is called a "Trial Balance", and the operation of "taking out a Trial Balance" is an important one, for if the totals of the two columns do not agree it is certain that a mistake has been made somewhere in the book-keeping, and the entries must be checked until the mistake is found and put right. (It should be noted in this connection that the agreement of the Trial Balance does not provide conclusive proof that the book-keeping is correct. The agreement of the Trial Balance would not disclose the following types of error -

- the omission of a transaction altogether;
- the recording of a transaction by double entry more than once;
- the entry of a correct amount, but on the wrong account;
- errors of entry or of additions which exactly compensate one another.)

908. Debit balances are of two kinds - (1) those which represent expenses, such as Salaries, Rent, or Depreciation, and (2) those which represent assets - that is, expenditure, the benefit of which is not enjoyed wholly in the accounting period, but remains to be enjoyed, in whole or part, after the end of the accounting period; an example would be the purchase of a typewriter which will give service for a number of years.

909. Similarly, credit balances represent either (1) income, such as the credit balance of Insurance Contributions Account; or (2) liabilities, such as amounts due to insured persons for cash benefits which have been awarded but not paid at the date when the Trial Balance is compiled.

910. When the accounts for a period are summarised and drawn up to show the financial position of the Institution at the end of the period, whether a month or a year, a careful distinction has to be made between the different sorts of balances referred to in the preceding two paragraphs. The debit balances representing expenses and the credit balances representing income will be shown on the two sides of the Income and Expenditure Account for the period, while the debit balances representing assets and the credit balances representing liabilities will be shown in the Balance Sheet, under "Assets" and "Liabilities" respectively. The balance of the Income and Expenditure Account (a credit balance, it is hoped) will be "carried to" and shown in the Balance Sheet as a liability (to the insured population as a whole) or shown as added to the Social Insurance Fund, and of course the total of the Assets must then be equal to the total of the Liabilities.

Advantages of the Double-entry System

911. A statement of the advantages of the double-entry system has been to some extent anticipated in paragraph 903 above, in which reference is made to the limitations of single-entry systems. The advantages of the double-entry system may, however, be summarised as under:

- (1) the non-agreement of the Trial Balance provides an automatic indication that one or more mistakes have been made in the book-keeping;

- (2) the double-entry system enables the distinction between the capital items and revenue (i.e. income and expenditure) items to be easily maintained;
- (3) it provides a method of recording debts due to and by the enterprise, and thus an automatic accounting control of the collection of income and the discharge of liabilities;
- (4) it facilitates the making of accounting adjustments, particularly those required at the end of the accounting period;
- (5) it provides a check on the cashier by means of the arrangement whereby the book-keeping record of cash transactions (the "double-entry" of items recorded in the cash book) is written up by the book-keeper, who is independent of the cashier;
- (6) it enables a Balance Sheet to be prepared, which shows clearly and concisely the financial position of the enterprise at the date of the Balance Sheet - the "net worth" of the enterprise, and the nature of the various assets and liabilities the difference between which constitutes such net worth.

PART IV

Note 2 - Budgetary Control

912. One of the principal means by which the Board will exercise financial control over the operation of the social insurance scheme will be by considering and approving, before the beginning of any year, a budget for the ensuing year, and requiring the authority of the Board to be sought for any departure from the terms of the budget as so approved.

913. In connection with budgetary control of the finances of a social insurance scheme there are two conceptions which may be applied. The narrower conception is based on the view that the main purpose of submitting a budget to the Board or other governing body is to obtain authority to spend, under the various heads of expenditure, up to the amount stated under each head in the budget as approved. Therefore if in the course of the year it becomes necessary to spend, under any budget head, in excess of the approved amount, the authority of the governing body must first be obtained.

914. Under this conception the budget would be only an expenditure budget, and, moreover, the expenditure included would be confined to expenditure which it is within the power of the Board to limit or increase. This would exclude, for example, expenditure on cash benefits, since all valid claims for cash benefits would have to be met as provided for in the Law and the Benefit Regulations irrespective entirely of budget estimates or the approval of the Board, and therefore it would be outside the power of the Board to lay down any limit of expenditure for such items. Thus the only expenditure included in the budget estimates for the Board's approval would, in practice, be expenditure on administration, and capital expenditure, whether for purposes of administration or not.

915. How far, under this conception, expenditure on the provision of medical care would be controllable is not capable of exact determination. Since all valid claims for medical care must be met, any types of expenditure which varied directly with the number of claims would be outside the competence of the Board to limit. Standing charges which did not so vary might be regarded as subject to the Board's approval, but it would be difficult in practice to draw a line between the two kinds of expenditure.

916. Under the other conception estimates are drawn up of the whole of the expected income and expenditure, including expenditure on benefits, administration expenditure, capital expenditure and investment, and the budget as submitted to the Board thus consists of a forecast of the whole of the Income and Expenditure Account of the Institution (or, if required, of the Income and Expenditure Accounts of the different branches of insurance for the ensuing year and (separately) of Administration) as well as of proposed capital expenditure and investment. The Board will review these estimates as a whole, and their approval, with or without amendment of the statements as submitted, will be given on the understanding that they would require to be consulted, and their prior approval would require to be obtained, for any expenditure in excess of the approved budget figure whatever the nature of the expenditure, and any short-fall of income.

917. There would be no implication that the Board could refuse approval for excess expenditure on such items as cash benefits; still less that they could refuse to acquiesce in a short-fall of income. The purpose of requiring a supplementary estimate to be submitted for expenditure exceeding the original estimate for such items as cash benefits or medical care would be to enable the Board to inquire into the reason why the previous estimate had proved to be inaccurate.

918. The reason might simply have been the difficulty of estimating from inadequate data, or a significant change in the experience of the year in question compared with that of previous years. On the other hand, however, it might be found that the reason lay in lax or irregular certification by medical officers, or some other similar circumstance, possibly due to some misunderstanding of the regulations, and in such cases steps could be taken to remedy the situation as regards the future.

919. In the case of a short-fall of income the Board would be given the opportunity of satisfying themselves that it was due entirely to causes, economic or otherwise, outside the control of the Institution.

920. It should be noted that capital expenditure and investment - to be provided for in the budget estimates as stated above - will include not only capital expenditure and investment out of surplus income arising from an estimated credit balance of the Income and Expenditure Account for the

ensuing year, but also reinvestment of the proceeds of any repayment, on maturity, realisation or sale of existing investments during the ensuing year, whether in virtue of a long-term investment programme that the Board may adopt, or utilisation of a Development Fund for some specific capital project, or otherwise.

921. At the same time, of course, the narrower conception of budgetary control referred to above could and would be applied to those heads of expenditure which are entirely within the Board's competence to increase or limit.

922. For these reasons, and subject to the limitations and implications discussed above, the second of the two conceptions of budgetary control - which, as has been pointed out, includes the first - has been adopted for the purpose of the model Financial and Accounting Regulations which are contained in Section 8 of Part II.

923. The application of the system of budgetary control envisaged requires the plan of accounting to be based on the precise heads both of income and expenditure which have been used in the budget estimates as approved by the Board. It will be the duty of anyone concerned with authorising expenditure to satisfy himself before signing a payment voucher that provision for the expenditure has been included in the budget as approved, and that the provision for the particular year, as shown by the charges to date to the relevant head of expenditure, has not been exhausted.

924. The principal agent on whom the Board will rely, however, to enable them to exercise a tight control over the out-turn of the budget is the Internal Auditor. One of his duties will be to keep a continuous watch on the progress, throughout the year, of income and expenditure under each of the heads used in the budget as approved, and to make a special report to the Board as soon as it appears likely that expenditure under any particular expenditure head will require to be exceeded, or that income under any particular income head will be deficient.

PART IV

Note 3 - Authorisation and Check of Payments

925. One of the most important requirements of an efficiently run organisation is to have a well understood procedure laid down and consistently applied in connection with the authorisation, checking, making and recording of payments.

926. Payments may or may not be based on invoices, statements of account, demands or other similar documents received by the Institution. Where invoices, etc. are received, one method is to use a rubber stamp to impress a rectangular "action" docket on a free space on the invoice, or on the back, containing spaces for signatures, references to related documents, etc.

927. If the invoice is for goods supplied, the store-keeper would certify in the action docket that the quantity charged for had been received in good condition, and would insert the number of the entry note. There would be a space in which the authorising officer would certify that the prices, calculations, etc., were correct and that the bill was approved for payment. There would be another space for the signature or initials of the checker, and additional spaces for a reference to the account to be debited, the initials of the cashier signifying that payment had been made, and references to the number of the cheque and the entry in the cash book.

928. A number of disadvantages of this method will be apparent. It is untidy, invoices are of different sizes and on different qualities of paper, it is awkward if the back of the invoice has to be used for the action docket, and there is in any event only one copy of the action docket. Moreover, as indicated above, some payments will have to be made without any form of demand having been received from the payee, e.g. periodical payments of rent, cash purchases of postage stamps, office supplies, etc.

929. A better method, it is suggested, is to use a standard form of payment voucher as the action sheet. The invoice or other demand document, if there is one, can be attached to the payment voucher, and the payment voucher can be completed in duplicate or triplicate by means of carbon paper or the use of carbon backed stationery which avoids the need to insert carbon paper.

930. An important additional advantage of this method is that the use of payment vouchers completed in triplicate facilitates the adoption of the arrangements suggested in Note 9 (Source from which book-keeping entries are made) as the most satisfactory method of providing the book-keeper with the information which he must record. It also, as pointed out in Note 9, helps to maintain the book-keeper's independence of the cashier - one of the fundamental requirements mentioned in paragraph 211(iv). This therefore is the method adopted for the procedural instructions relating to payments (except payments of cash benefits, for which a special procedure is required) contained in Section 3 of Part II (paragraphs 228-259).

Check of Payments

931. Another operation which may be arranged in more than one way is the check of payments. It is almost universal practice, in order to prevent, or discover, errors in the amount of a payment, whether caused by a mistake in calculation or some other sort of mistake, to have the amount of the payment independently checked. An important reason for an independent check of all payments is that the knowledge that this will take place acts as a strong deterrent against any attempt by a fraudulently inclined authorising officer to put through an excessive or a fictitious payment (e.g. a payment to himself under a fictitious name).

932. Checking can be done before or after the payment has been made. If suitable staff is available to perform a pre-payment check without delaying the payment unduly, this clearly is the better plan. It is easier to correct a mistake before the payment has been made than to recover an overpayment afterwards.

933. A pre-payment check could be performed (i) by a colleague of the authorising officer - that is, another officer of the administrative division which is responsible for the service in connection with which the payment is to be made, or (ii) by an officer of the Finance and Accounts Division, or (iii) by an officer of the internal audit service.

934. The choice of one or other of these methods may depend on the resources of staff available. The first-mentioned is the least desirable both because of the possibility of collusion where a number of officers working in the same section check one another's authorisations, and

because the requirement of an independent check is not fully satisfied since both authoriser and checker belong to the same "spending" section and work under the same supervisor of that section.

935. The check is best performed by the internal audit service. The element of independence is completely satisfied. Moreover, if the pre-payment check is performed in the first or the second of the ways mentioned, the internal audit would have to perform some check of payments in any case in order to satisfy the Board that the accounts were in order - probably by a sample post-payment test. In these circumstances the performance of the pre-payment check by the internal audit avoids overlapping and any possible duplication of work. For these reasons this is the method adopted for the procedural instructions contained in Section 3 of Part II (paragraphs 228-259).

Payment of Cash Benefits

936. What has been said above applies generally to payments for supplies of all kinds, payments in connection with the provision of medical care, and payments of administrative expenses. The largest single class of payments will almost certainly, however, be payments of cash benefits and for this special class a special procedure will be desirable to cope efficiently with the large output that will be required and to keep the work moving.

937. In view of the specialist nature of the work of investigating entitlement to cash benefits and, if entitlement is established, of determining the amount payable, a special section of the Cash Benefits Division will perform this work in accordance with the procedure described in detail in Part IV, Section 2, Chapter 1 of the Handbook of Social Insurance Administration. Amounts due will be determined on an action sheet for each claimant (Form S9 for sickness cash benefit, and corresponding forms for the other cash benefits) and entered on a payment schedule (Form S14 or E7 or E11).

938. The problem of devising a procedure, which will contain the essential features recommended above, for authorisation and check of a continuous flow of payments of cash benefits is essentially a practical one to be solved in the light of the particular circumstances of a particular scheme, principally its resources of competent staff. Much will

depend on the volume of claims to be dealt with. In the first months of the operation of a new scheme the volume of claims is likely to be small, but the arrangements made should, of course, be such as are likely to cope efficiently with the volume expected when the scheme is running normally. Perhaps arrangements on the following lines would meet the case.

939. If a large, continuous flow of claims is expected, the most practical arrangement may be (as provided for in the chapter of the Handbook referred to in paragraph 937 above) to have every "award" checked on the spot by a second member of the awarding section, both awarder and checker signing or initialling the action sheet (Form S9, etc.) in the spaces provided. If this procedure is adopted it is regarded as essential, however, that the payment schedules (Forms S14, etc.) should be referred to a member of the internal audit service and signed by him (both top copy and duplicate) before they are passed to the cashier for payment. The internal audit would be under instructions to avoid delaying the passage of the payment schedules to the cashier; they would have to be sent to the cashier at the latest within one working day from the time at which they were received.

940. In these circumstances the signature of the internal auditor on the payment schedule would not indicate that he had satisfied himself in all respects as to the correctness and admissibility under the Law and Regulations of every payment shown on the payment schedule, but only that he had had the opportunity to do so.

941. It is suggested that before signing a payment schedule the internal auditor should in any event check that the action sheets from which the amounts due had been carried to the payment schedule, had been properly signed or initialled by both awarder and checker, and that the amounts due had been correctly carried to the payment schedule. Beyond that, he should note, for subsequent examination in detail, a proportion of the awards listed for payment.

942. This post-payment examination of a proportion of the awards would be an important feature of the internal audit arrangements. It would be designed to check from the original documents the admissibility of the selected awards, and would be concerned not only with the arithmetical correctness of the awards but also with any questions of principle that might arise. The proportion to be thus selected for post-payment examination would depend on the disposition by the chief of the internal audit service of the staff

at his disposal. Post-payment check of even a small proportion of the awards would, however, have the salutary effect of keeping the awarding and checking staff alert.

943. The best arrangement, if resources of staff permitted, would be for a member of the internal audit staff to perform the check of the action sheet and initial the action sheet accordingly, and to check the carry forward to the payment schedule and sign the latter. This would obviate the need for any post-payment check. This arrangement is therefore provided for in the procedural instructions contained in paragraphs 244-249 and 531-534; the arrangements suggested above in paragraphs 939 to 942 are, however, also included as an alternative.

Petty Cash Payments

944. In connection with the many quite trifling payments that have to be made in cash - for such items as omnibus fares, portorage, the cost of telegrams, etc. - some modification of the arrangements described in paragraphs 929 to 935 above would be justified. Such payments - not exceeding the equivalent of, say, 10 U.S.A. dollars - could be made out of Petty Cash, without payment vouchers for each individual payment, by a petty cash keeper who would hold an "imprest" (advance) from the cashier for the purpose. The amount of the imprest would be restored periodically on production of receipts for the disbursements and the internal auditor would check and sign a single payment voucher on which these periodical reimbursements of expenditure would be authorised.

PART IV

Note 4 - Depreciation

945. In a commercial or industrial undertaking "fixed assets" means assets which are held for use, while "floating assets" are those which are held for sale or for consumption within the business. Thus premises and machinery are fixed assets, but the articles manufactured or the fuel used in the factory are floating assets. In English usage the term "fixed assets" is therefore not concerned with whether the assets are moveable or not; except in the case of a motor car factory or dealer, motor cars, although pre-eminently "moveable" would be "fixed assets".

946. In a social insurance institution the fixed assets would be premises, furniture and equipment, motor vehicles, etc. and the floating assets would be the stocks of pharmaceutical products, medical appliances, etc.

947. There are two reasons why it is necessary to provide for depreciation of the fixed assets. The first is to ensure that the annual Income and Expenditure Account gives a statement of the true cost of providing the various services during the year. If, for example, a typewriter is expected to last ten years it can be assumed that one-tenth of the cost of the typewriter (less any residual value at the end of the ten years) is used up or consumed each year, and in order to give a complete statement of the cost of the year's operations it is therefore just as necessary to include this element on the debit side of the Income and Expenditure Account as to include the salary of the typist.

948. The other reason is that the fact of charging depreciation has the effect of retaining in the bank current account an equivalent amount of cash which will be available ultimately for the renewal of the asset. When salaries or any other cash expense is debited the corresponding credit is to "Cash" or "Bank" since the money is paid out. When depreciation is debited, however, the corresponding credit is to the asset account (thus reducing its "book" value by the amount of depreciation credited). No cash is paid out; the equivalent cash is retained and will, if left undisturbed, amount at the end of the period estimated as the effective life of the asset, to a sum which, with the residual value, will be equal to the original cost price of the asset. The operation has the effect therefore of providing a sum which will be available to renew the asset at the end of its estimated effective life, and prudent finance requires this provision to be made.

949. The financial effect of charging depreciation will be seen clearly if, when depreciation is debited, the corresponding credit is made to a "Depreciation Fund" instead of to the asset account. In that case it is evident that the Depreciation Fund could be invested like the Contingencies Reserve or any other Reserve Fund. Sometimes, in fact, depreciation is presented in this way, the asset being shown on the Assets side of the Balance Sheet at cost, and the amount of the Depreciation Fund appearing on the Liabilities side among the other reserves.

950. The more usual practice however is to show the asset at its value as written down to date. Either the cost price, or the value of the asset as shown in the previous year's Balance Sheet is shown in an inner column, and the total amount of depreciation to date, or the depreciation charged for the year, is shown as deducted, the net figure in either case being presented in the outer column.

951. Since the method of presentation in the Balance Sheet does not, of course, affect the reality of the position, the total amount of depreciation charged, or "reserved" by being carried to a Depreciation Fund, is in the case of both methods available either for investment or to help to maintain the minimum cash balance required as "working capital" to enable the day-to-day payments to be made when due. In so far as the amounts are invested, the investments will be available for realisation to finance the renewal or replacement of the assets.

952. It is more than likely, however, that the cost of renewal or replacement of fixed assets at the end of their effective life will be much greater than their original cost. In that case, to finance the increase in cost, recourse could with propriety be had to any Development Fund, or to the Social Insurance Fund.

953. The rates of depreciation to be applied to different classes of assets may be laid down in the Financial and Accounting Regulations, or it may be provided that the rates to be applied to different classes of assets shall be as determined by the Board from time to time. The rates to be applied, whether stated in the Regulations or not, will of course be based on local conditions in the particular country, including the type of construction of the buildings, the quality of the furniture and equipment available, and so forth.

954. It is also provided in the draft Financial and Accounting Regulations (paragraph 584) that the "linear" method of charging depreciation shall be adopted unless for particular reasons the Board determine otherwise. The "linear" (or "straight-line") method means that equal amounts are charged each year. If an asset costs £1,000 and is estimated to have an effective life of ten years, with a residual value of £50 at the end of that period, the amount to be charged each year would be £95.

955. The typical assets intended to be covered by the provision in paragraph 584 that the Board may decide on a method other than the linear method "in relation to assets the value of which falls more rapidly in the early than in the later years of their effective life" are motor vehicles; the conventional second-hand prices of new cars after one, two, three etc. years' use illustrate this. If desired, a special scale of depreciation could be applied, or it might be sufficient to charge, each year, say, 25 per cent. of the written-down value as at the beginning of the particular year.

PART IV

Note 5 Reserves and Investments

General

956. Social insurance schemes can be financed in a number of ways and the provision of funds adequate to ensure the payment of the benefits in the future can be arranged in accordance with different principles. These matters fall within the domain of actuarial science, and for a comprehensive treatment of the subject reference should be made to one of the relevant technical publications. Whatever the methods of financing adopted, however, it will be necessary to provide certain reserves to guard against the consequences of unexpected increases in the frequency and severity of the risks insured against, or unforeseen falling-off in the income of the Institution.

957. With regard to investment of the reserves, the Financial and Accounting Regulations might lay down certain general rules, but should be sufficiently flexible to allow the authority responsible for selecting the investments, which it is assumed would be the Social Insurance Board, to exercise some choice and, other considerations being equal, to choose investments which would serve the interests of the insured population or promote the social or economic well-being of the country as a whole.

Methods of Financing Social Insurance Schemes

958. There are three principal methods of financing social insurance schemes. The first is usually employed in connection with schemes providing "short-term" benefits such as medical care and cash payments for sickness, maternity, industrial injury, etc. (but excluding industrial disablement and survivors' pensions, which are "long-term" benefits). The rates of contributions under this method are fixed at levels designed to meet the outgoings year by year or over a short period of, say, three or five years, so that, in general, current income will cover current expenditure. The method is referred to as the "assessment" or "pay as you go" method, and when it is used there is always a "Contingencies Reserve" set up to help to meet abnormal outgoings or abnormal reduction of income in any particular short period.

959. A characteristic of the short-term benefits is that the payments are spread more or less evenly throughout the period of insurability of the contributors, and there is therefore no special need to accumulate funds to meet greater expenditure on the payment of benefits in future than is being made currently. This feature is to some extent modified by a tendency, in the case of new schemes, for relatively few claims of short-term benefits to be received in the first year or two and for the claims to increase in number as the insured population become accustomed to taking advantage of the short-term benefits provided and, in the case of medical care, as facilities improve. After the initial period of a few years, however, this feature will tend to disappear and the incidence of the short-term benefits over the insurable life of the contributors will be fairly even. Moreover, there is no liability to pay short-term benefits to existing contributors for more than a few months at the most after they have ceased to contribute, whereas in the case of pensions of every sort the liability may continue for many years.

960. Thus it is often found convenient and appropriate to aim at establishing financial equilibrium in connection with the short-term benefits by using the assessment method. Substantial variations in expenditure as between one year and another could, however, be caused by such circumstances as epidemics, or abnormally severe weather causing increased sickness, while income may be reduced as a result, for example, of some national disaster, or a severe slump in the country's economy. In circumstances such as these a Contingencies Reserve can, if necessary, be drawn upon to help to meet the abnormal expenditure or make good the loss of income.

961. If changes on a longer-term basis occur in the volume of expenditure on benefits, perhaps to meet a rising cost of living caused by inflation of the currency, this will be met by reviewing periodically the rates of contribution and, if necessary, raising them concurrently with increases in the level of benefits.

962. The second of the three methods referred to is sometimes used in a scheme where contributions are collected for benefits which, in general, will not become payable until many years later. This will occur where a scheme provides "long-term" benefits such as pensions for invalidity, industrial disablement, old-age,

survivors' pensions, etc. and where, as time progresses, and more and more insured persons qualify for benefits, there will be a growing trend of benefit expenditure. The method is to fix rates of contribution at such a level that in the earlier years there will be a surplus of income from existing contributors over current expenditure. This balance is set aside in a reserve fund and invested, and the income from the investments is available in the later years when the level of expenditure has risen, to supplement contribution income and thus to maintain financial equilibrium. This is variously called the "funding", "actuarial reserve", or "technical reserve" method.

963. A disadvantage of relying on the funding principle to finance the future liabilities of a compulsory state scheme is that its effective use depends on the value of the country's currency remaining fairly stable in purchasing power over a long period. It will be evident that the calculations on which the contributions, in relation to future benefits, have been fixed will be invalidated to a greater or lesser extent if the money value of the benefits has later to be raised, as a matter of public policy, to compensate for a loss of purchasing power of the currency caused by inflation. Another disadvantage inherent in the long-term character of the financial operations is the possibility that the calculations and expectations on which the scheme of financing depends may be vitiated by such factors as injudicious investment, or misuse, in one way or another, of the funds set aside.

964. The third of the principal methods referred to is sometimes used for long-term benefits which are awarded as pensions, and aims to cover, in any particular year, the full capital value of the pensions which have been awarded during the year. In this method each year's income is charged with the present value, at the time of award, of all the pensions which mature during the year. These capital values (which can be ascertained from an appropriate "Present Values" table) are set aside in a reserve fund and invested. The income from the investments is credited to the reserve fund, and out of the reserve fund the future monthly payments of the pensions are made. This method represents the assessment principle applied to capital values on a year-by-year basis and is referred to as the method of "assessment of present values of pensions in force" or "assessment of capital cover of pensions in force".

965. While three main methods of financing social insurance schemes have been mentioned, it is necessary to make it clear that there are many other methods, and that particular schemes are often, if not usually, financed by a combination of the principles and methods illustrated by these three typical patterns.

Reserves Required

966. It will be clear that the reserves which will have to be created under any particular scheme will depend on the method or methods by which the scheme is financed. Most schemes will in any event require to set up a "Contingencies Reserve" and the Financial and Accounting Regulations (paragraphs 586-587) and Accounting Code contained in Part III therefore provide for such a reserve. At the same time, the Regulations and the Code can be adapted to accommodate the creation of other reserves if these are required.

967. When, towards the end of a year, the budget for the ensuing year is prepared, provision should be made for setting aside, out of income surplus to the amount required to meet expected outgoings, allocations to the Contingencies Reserve and any other reserves that may be required.

968. In deciding to what extent income can be regarded as surplus to immediate requirements, and therefore available to be allocated to reserves, fluctuations during the year in income and expenditure should be allowed for. It will be necessary for that reason to maintain in the current account at the bank of the Central Office a margin of cash sufficient to cover any temporary or seasonal increase in the volume of expenditure or decrease in the inflow of income. An amount equivalent to, say, one month's average expenditure on benefits and administration as a minimum, should therefore be retained in the current account before any allocation to a specific reserve is made.

969. The level at which the Contingencies Reserve should be maintained requires consideration. It is suggested that a reserve equivalent to two months' average expenditure on benefits and administration will be sufficient, although conditions in some countries might justify a larger reserve. When the amount of the reserve has reached the level decided upon, no further allocations need be made unless an appreciable increase takes place in the volume of expenditure.

970. Further surpluses of income over expenditure may be left in the Social Insurance Fund, the basic fund of the Institution, or perhaps transferred to a Development Fund, to be available to finance future capital projects such as the construction of a new hospital or the provision of additional dispensaries.

971. As an accounting concept the Social Insurance Fund, which appears on the Liabilities side of the Balance Sheet, is the balancing item of the Balance Sheet. It represents the difference between the total of the assets as a whole and the total of the liabilities, including any specific reserves.

972. Looked at in another way, the specific reserves (appearing on the Liabilities side of the Balance Sheet) will be represented, on the Assets side, by particular investments earmarked for the particular reserves, and the Social Insurance Fund (also, of course, appearing on the Liabilities side) will be represented, on the Assets side, by (i) the buildings and equipment used by the Institution; (ii) any other assets not specifically earmarked for any reserve; and (iii) the working capital ("fond de roulement") consisting of the cash and sundry outside debtors less sundry outside creditors. (In so far as the Social Insurance Fund is represented by the buildings and equipment belonging to and used by the Institution, it corresponds to the French conception of the "patrimoine de base", the capital of the Institution which is held for use and not for the purpose of earning income.)

Investments

973. In view of the nature and purpose of the Contingencies Reserve, the sums set aside to create the reserve should be placed in investments which are liquid or easily realisable at short notice. Short-term investments which are quoted on a stock exchange or deposits with a bank which are withdrawable on short notice would form suitable investments for the Contingencies Reserve. If other reserves are created they might be invested in medium-term or long-term investments as appropriate in relation to the purpose of the particular reserve.

974. It may be that a Contingencies Reserve is the only specific reserve established and that surplus funds are left to form part of the Social Insurance Fund. In that case, unless the surplus funds are used for development projects and therefore invested in fixed assets, they would be invested primarily for income.

975. How far the Financial and Accounting Regulations should go in limiting permissible investments according to the nature of the investments will depend on investment conditions and the avenues for investment in the particular country - particularly the extent to which some or all of the following types of investments are available - government or government-guaranteed securities, loan issues by regional or municipal authorities or other public bodies, debentures or stocks of transport, water, electricity, etc. undertakings, loans on mortgage of real estate, etc. Model Regulations suitable for general application must of necessity leave articles relating to permissible investments to be drafted in the light of the conditions prevailing in the particular country and the type of investment opportunities available.

976. In this connection, perhaps the most important factor will be the extent to which securities of the government of the particular country are available and freely marketable. If the volume of such securities is small, funds might be placed in freely marketable foreign government securities, some of which are issued on terms by which the income is payable to non-residents of the issuing country free of liability for income tax. A possible limitation of the kind referred to in the preceding paragraph would be to prescribe a maximum for the proportion of securities of foreign governments which might be held.

977. It is the practice in some countries for the investments of public bodies to be "vested in" (i.e. registered in the names of) trustees, usually three in number. This provides security against malpractice, as the signatures of all the trustees are required for the purchase or sale of the investments; and if, as is usually the case, the trustees appointed are eminent public figures belonging to or connected with the body concerned, public confidence in its financial stability is thereby increased.

978. In other countries it is not customary to appoint trustees, and where this is the case it would not perhaps be advisable to introduce a conception foreign to established legal practice. In the case of such countries the investments would be registered in the name of the Social Insurance Institution and the signatories on documents of purchase or sale of the securities would be those of the persons by whom the Institution is, at the time, represented juridically.

979. A draft article providing for the investments of the Institution to vest in trustees has been included in the draft Financial and Accounting Regulations within square brackets and may be used optionally; see paragraph 595.

PART IV

Note 6 - Method of Showing Income from Insurance
Contributions in the Income and Expendi-
ture Account

980. There are different ways in which the amount to be shown in the Income and Expenditure Account as "Income from insurance contributions" can be arrived at and the purpose of this note is to explain the method proposed, the reasons for adopting this method and the way in which it is intended to give, in the Income and Expenditure Account, the fullest information regarding the item.

981. For practical purposes "Income from insurance contributions" can be defined in two ways. It will be convenient to deal separately with cases where contributions are paid by the "insurance stamps" method and those where payment is made in cash on the "pay-roll" method.

982. "Stamps" Method

The two definitions referred to would be -

- (1) proceeds from sales of stamps during the year and amounts received in cash during the year from employers in respect of contributions in arrears; and
- (2) proceeds from sales of stamps during the year and amounts ascertained during the year to have become due from employers in arrears, irrespective of whether or not the whole of these amounts have been paid during the year (the amounts due but unpaid at the end of the year being shown on the Assets side of the Balance Sheet).

983. "Pay-roll" Method

The two corresponding definitions would be -

- (1) amounts received in cash during the year irrespective of the period to which they relate, and
- (2) amounts ascertained to have become due in respect of the year or in respect of a previous year for which the accounts had been closed irrespective of whether or not the whole of these amounts have been paid during the year (the amounts due but unpaid at the end of the year being shown on the Assets side of the Balance Sheet).

984. It will be seen that under the first definition in both cases the income is shown on a purely cash basis while under the second definition in both cases the income is shown on an accrual basis - the amount due whether received or not.

985. As is explained in Note 7 of this Part, other income (chiefly income from investments) will be shown on an accrual basis, and therefore it might be expected that in the interests of consistency, if not for other reasons, the second definition of income from contributions would be adopted. There are good reasons, however, for preferring the first definition, but at the same time giving no less information in the Income and Expenditure Accounts than if the second definition had been adopted.

986. In the case of other income it is justifiable to take credit at the end of the year for income due, because of the virtual certainty that it will be received in due course. In the case of insurance contributions due but unpaid at the end of the year this virtual certainty does not exist. The unpaid contributions are those due from employers who have defaulted in their obligations. Under a "stamps" system they have been found to have failed to affix stamps to the cards of their employees and the sums under consideration represent the arrears of contributions for the period of default. Similarly, under the "pay-roll" system employers have failed to pay the contributions due from them periodically and after inquiry the amount of the arrears has been determined.

987. In these circumstances it is clear that it would be misleading and therefore incorrect to include in the income of the year these sums due from defaulting employers unless at the same time an adequate reserve were created to cover the risk that a proportion of the sums in arrears would prove ultimately to be irrecoverable. How high a proportion this would have to be would depend on circumstances, but as many employers who default do so because they are unsound financially, prudence might require the proportion to be quite high.

988. This method could, of course, be adopted if desired. The contributions which have been established as due would be included in the contribution income for the period as shown on the credit side of the Income and

Expenditure Account, while the debit side of the account would include an appropriate amount shown as transferred to a "Reserve for Bad Debts". In the Balance Sheet there would be shown on the Assets side the total amount of contributions due but unpaid, and on the Liabilities side the amount of the Reserve for Bad Debts. Subsequent bad debts would, under proper authority, be written off out of the Reserve.

989. It is, however, an important principle of good accounting that wherever possible accounts should be factual, and that the results shown should be uninfluenced by the introduction of factors involving estimates or questions of opinion. This is the first reason for preferring the method of showing income from contributions on a purely cash (and therefore factual) basis, instead of in effect making an estimate of a sum to represent the true (net) income by creating a reserve of an amount fixed arbitrarily.

990. The second reason is that in the interests of prudent finance it is better, instead of making an uncertain estimate, at the end of the year, of how much of the outstanding contributions can be relied on as income, to wait until the following year and then to credit the amount which in fact it is found possible to collect. By postponing the year of credit the accountant substitutes certainty for conjecture and at the same time knows that he is running no risk of overstating the year's income.

991. The third reason is that it is undesirable to publish an Income and Expenditure Account which contains a substantial reserve against bad debts, thus intimating to defaulting employers who are being pressed to pay their arrears that the Institution is reconciled to writing off a substantial part of the sums due.

992. The first of the two definitions of income from contributions is therefore preferred, and in the final accounts income from contributions should, it is suggested, be shown on a cash basis.

993. It is desirable, however, that in the books of account complete records should be maintained of amounts due but unpaid in respect of contributions. Accounting control of contributions in arrears is, in fact, one of the purposes which the accounting system should serve and

a method of control is explained in paragraphs 402-418. The book-keeping procedure is described in the Accounting Code (paragraphs 721-726) and involves debiting a personal account in the name of the defaulting employer as soon as the amount due in respect of arrears has been ascertained. (If the fact of the arrears is established but the exact amount cannot at the moment be stated, a debit will be raised based on the latest known information.) These debits will remain outstanding until either they are discharged by payment or it is recognised that it will be impossible to recover the remaining amount due (for reasons of insolvency legally established, death of the employer, etc.). In these cases the outstanding debit will be formally written off under proper authority.

994 The accounting arrangements proposed will make it possible at any time to state -

- (i) the total amount debited since the beginning of the year in respect of arrears of contributions;
- (ii) the total amount paid since the beginning of the year in liquidation of these arrears;
- (iii) the total amount written off as irrecoverable since the beginning of the year; and
- (iv) the balance still in process of collection from defaulting employers.

995. It is thought to be desirable, therefore, without taking credit for any uncollected income, to add a footnote to the Income and Expenditure Account which will give the essential information on this important subject, which will be of special interest to the Board, particularly in relation to the corresponding information for previous years. In the case of schemes where contributions are paid by purchasing stamps the amount received in cash in respect of contributions otherwise than for the purchase of stamps - i.e. in liquidation of arrears - will be shown as a separate figure in the Income and Expenditure Account; where collection is by the "pay-roll" method the total amount received in cash will be shown, without distinguishing the amounts received normally and the amounts received in respect of arrears. In both cases the footnote will state, in respect of the year of account -

Total amount due but unpaid at the end of the year;

Total amount written off as irrecoverable;

Balance in course of collection.

996. By this means it is designed to secure the advantages of both methods of accounting - to avoid taking credit for contribution income until it is received in cash, and at the same time to provide in the accounts the essential information regarding contributions in arrears, and thus an accounting control of collection of the arrears.

PART IV

Note 7 - Basis on which Income (other than Insurance Contributions) and Expenditure should be recorded and shown in the Final Accounts

Income

997 Note 6 explains why, for special reasons, it is desirable to depart, as regards insurance contributions, from the normal practice of assigning to a particular accounting period the income which has accrued during the period.

998. As regards income other than insurance contributions, the normal accounting rules should be applied, so that each year receives credit for the income appropriate thereto, whether or not actually received during the year. Income accrued but not received will, of course, appear among the assets in the balance sheet.

999. Thus where income from an investment is payable on, say, 31 March and 30 September each year, the income "earned" in respect of the period 1 October to 31 December will be included in the income of the year ended 31 December, and included in "Sundry Debtors and Debit Balances" as an asset in the Balance Sheet dated 31 December.

Expenditure

1000. As stated in paragraph 217, the plan of accounting is based, in principle, on expenditure being charged against the accounting period in which it becomes due for payment.

1001. A method simpler to operate and easier for inexperienced accounting staff to cope with would be to charge all expenditure on a purely cash basis. This would involve merely recording payments when made and charging in the accounts of any period simply the payments made in that period.

1002 The former method is, however, the more accurate, and is better adapted to facilitate budgetary control, since it is authorisations that must be watched to avoid overstepping budgetary limitations rather than payments, which are obligatory, and indeed automatic, once the payment voucher is issued.

1003. The question must be considered, however, whether from the practical point of view the advantages of adopting the former method are really worth securing, or whether they may not be outweighed by the disadvantage of complicating the accounting arrangements and increasing the work falling on the accounting staff.

1004. As to this, the difference in practice between the results as shown by the two methods may not amount to very much. In so far as payments are made by cheque the delay between authorisation and payment should never be more than one day; the internal auditor will be under instructions to pass any payment voucher to the cashier within a maximum of six hours from the time he receives it from the authoriser, and the cashier should be ready to make payment as soon as he receives a payment voucher.

1005. It will be mainly in connection with payments in cash - particularly cash benefits - that delays may occur, since the payee will have to come to the office to receive payment, or authorise someone else to obtain payment on his behalf. There are also likely to be an appreciable number of cases where for one reason or another cash benefit is not claimed or not claimed before it becomes "time-expired".

1006. In view of the desirability of keeping the accounting system as simple as possible for countries which may be embarking on social insurance for the first time, with slender resources of experienced accounting staff, and at the same time providing for the needs of other countries less restricted in staff resources, the book-keeping instructions contained in the Accounting Code (paragraphs 731-740) cover both methods as alternatives. The procedure and entries for accounting for payments on a purely cash basis are first explained and, as an alternative, a method is given by which the monthly and annual accounts can be drawn up on the more accurate basis of expenditure incurred, whether paid or not within the period of the account.

1007. The direct method of accounting for expenditure on the basis of expenditure incurred would be for the book-keeper, when he receives from the internal auditor the pink copy of the payment voucher (see paragraph 239) to debit the expenditure account and credit a personal account opened in the name of the payee. When he receives from the cashier the blue copy of the payment voucher giving details of the payment he would then debit the personal account, thus clearing the liability (the credit made by the cashier in the cash book providing the double entry).

1008. As, however, most payment vouchers will be paid almost immediately, this method would involve a good deal of work to little purpose. An easier and more economical way of arriving at the same result at the end of the month is therefore included in the Accounting Code as the alternative to accounting on a purely cash basis.

1009. The method is to make the entries during the month on the cash basis and at the end of the month to ascertain the outstanding items and make the adjustments necessary to enable the monthly accounts to be drawn up on the alternative basis; the adjustments would of course have to deal with the outstanding items both at the end and at the beginning of the month (see paragraph 775).

1010. There would be no difference during the month in the book-keeping required to operate the one method or the other. Any additional complication which the second (and more accurate) method would involve would be confined to these few end-of-month adjusting entries. This then is the method provided in the Accounting Code as the alternative to the purely cash basis.

PART IV

Note 8 - Financial Year

1011. The choice of the year to be adopted for purposes of finance, accounting, and contributions, will depend on the circumstances in which a particular scheme is launched and the date at which it commences to operate.

1012. In the absence of special considerations the calendar year 1 January to 31 December might be used, and if the scheme commences on a day other than 1 January the first accounting period would be a broken one ending on 31 December in order to be able to use the calendar year from that point onwards.

1013. If the date of commencement falls in the last three or four months of the calendar year the first accounting period might be extended to embrace 15 or 16 months. Otherwise it would be better to have a short accounting period of anything from, say, five to eleven months ending on 31 December.

1014. If the government do not use the year commencing on 1 January for their own financial and accounting purposes it may be decided to use the same year as the government do, particularly if the Law provides for an annual contribution by the government to the Social Insurance Fund. On the other hand, if there is no government contribution it may be desired to emphasise the financial autonomy of the Social Insurance Institution by deliberately using a financial year different from that of the government.

1015. If the scheme commences to operate at the beginning of a month a simple plan would be to use, for the first and all subsequent accounting periods, the year commencing on the day on which the scheme commences. This would avoid either a short or an extended first accounting period as envisaged in paragraph 1013 above, and would facilitate statistical comparisons between the first and other years.

1016. On the whole the calendar year is probably the most desirable accounting period to use in the absence of special reasons for using some other year. The use of the calendar year would, incidentally, facilitate the preparation of statistics and the making of statistical comparisons by international organisations.

1017. In any event the accounting year and the contribution year should be the same. Changes in rates of contributions, whether following actuarial reviews or not, would probably be made at the beginning of a new contribution year, and if that was the case it would complicate comparison of financial results as between one year and another if a new accounting year did not commence on the same date as the new contribution year with its new rates of contribution.

PART IV

Note 9 - Source from which Book-keeping Entries are made

1018. This Note discusses the arrangements by which the book-keeper is provided with the information which he must record in the books of account.

1019. There are different ways in which this can be done but a country which is embarking on social insurance for the first time will most likely wish to adopt the method already in use in other governmental or quasi-governmental organisations in the country. Before this is decided upon it may, however, be worth while first to consider whether the traditional method, whatever it is, is best adapted to safeguard the large funds which will be entrusted to the Social Insurance Institution and to provide the best assurance of correct accounting.

1020. One method is based on the cash book. As explained in Note 3 of Part IV, (Authorisation and check of payments), the cashier will make his payments on the authority of payment vouchers authorised by an official of the appropriate administrative division and certified as in order by an officer of the internal audit service. The latter will also confirm as correct the Code number of the account to be debited, as stated on the payment voucher. The cashier will use a cash book which contains the usual main columns headed "Cash" and "Bank", and will enter the amount paid in the appropriate column according to whether he pays in cash or by cheque.

1021. In addition, if the method of posting from the cash book is used, the cash book will have analysis columns for all the accounts which have to be debited frequently and a "Miscellaneous" column for those which come into use only occasionally; against these latter entries there will be space for the insertion of the Code number of the account concerned. In addition to entering the amount in the main "Cash" or "Bank" column, the cashier will write the amount a second time in the appropriate analysis column or in the Miscellaneous column.

1022. The Receipts side of the cash book will be simpler. In the case of the Central Office cashier there will probably be only occasional receipts, principally rents or income from investments. In the case of a local office cashier, there will be receipts for sales of insurance stamps (or, if the pay-roll method is used, the periodical receipts from employers for contributions due) irregular receipts in respect of arrears of contributions, and a few quite miscellaneous items.

1023. At the end of each day the cashier will balance his cash book. After checking that his cash in hand is correct in relation to his opening cash balance plus cash receipts during the day less cash payments during the day he will add up the individual analysis columns and then cross-check horizontally that the sum of these totals agrees with the sum of the "Cash" and "Bank" columns less the opening balances.

1024. The cashier will then make an abstract of the day's transactions, which he will sign and send to the Book-keeping Section. The abstract will show, for "Cash" and "Bank" columns taken together - Opening Balance, Total Receipts during the day under each Code number, Total Expenditure during the day under each Code number and Closing Balance. This constitutes the effective analysis of the day's payments and receipts and the task of the book-keeper is simply to post these daily totals to the expenditure and income accounts indicated on the daily abstract.

1025. Another rather different method of providing the book-keeper with the information to be recorded is based, as regards payments, on carbon copies of the payment vouchers, and, as regards income, on carbon copies of the acknowledgements of receipt given when money is received by the cashier.

1026. If this method is used, payment vouchers are supplied in pads, serially numbered and interleaved with blue and pink sheets to serve as copies, and every payment voucher is completed in triplicate by means of carbon paper or by the use of special carbon-backed stationery which avoids the need to insert carbon paper. When a payment voucher is made effective by the signature of the internal auditor who certifies it as in order (see Note 3 of Part IV), that official will dispose of the copies as follows: the top copy (white) and the second copy (blue) will be sent to the cashier for payment, and the third copy (pink) will be sent to the book-keeper to act as the posting medium for the charge to the appropriate expenditure account. When payment is made the cashier will retain the top copy (white) as his voucher for the payment and will send the second copy (blue) to the book-keeper to inform him that the payment has been made and to supply him with particulars - date of payment, and either the payee's receipt on the form if the payment was made in cash, or the number of the cheque sent, in the case of payment by cheque.

1027. Receipt forms are also supplied in pads, serially numbered and interleaved with blue and pink sheets to serve as copies. Each receipt is completed in triplicate by means of carbon paper or by the use of special carbon-backed stationery (see paragraph 1026 above). The cashier disposes of the forms as follows - the top copy (white) is given or sent to the payer, the second copy (blue) and the third copy (pink) are sent to the internal auditor who, after examining and certifying the forms, sends the pink copy to the book-keeper as the posting medium for the amount received; and returns the blue copy to the cashier for retention as his voucher for his entry in the cash book.

1028. If this method is used the cash book has only "Cash" and "Bank" columns; no analysis columns are required.

1029. To complete the picture it should be noted that under both systems the book-keeper will also have to post "transfers" in respect of adjustments or other transactions where no cash passes (e.g. debits to Depreciation Account and credits of the same amount to the asset account). These transfers will be notified to the book-keeper separately - probably by an entry in a "Transfer Journal" if the first method is used, and probably on a special form if the second method is used, authenticated in either case by the signature of an official competent to authorise the transfer.

1030. There are, of course, variations of these two systems, but in general the entries in the Ledger accounts depend either on previous entries in the cash book or on carbon copies of payment vouchers and receipt forms.

1031. An advantage of the cash book method is that where particular types of payment and receipt are numerous the use of analysis columns enables daily totals for posting to the Ledger accounts to be obtained quickly and conveniently. A disadvantage is that no entries are made in the expenditure accounts until the payment has actually been made. From the point of view of budget control and for other reasons it is better to record expenditure as soon as it is authorised - a method which is facilitated by posting from carbon copies of payment vouchers.

1032. The principal difference between the two methods is, however, in the matter of security. In order to obtain the full benefit of the double-entry system the cashier and the book-keeper should be independent of each other so that each can act as a check on the other. If the cash book method is used this advantage is to a significant extent lost. Under this method the rôles played by the cashier and the book-keeper are unequal: the cashier plays the major rôle and the book-keeper a minor one. This places a heavier load of work on the cashier, but the important effect from the point of view of control is that if the cashier should be inclined to attempt anything in the nature of theft or fraud he has greater opportunity under this system to carry out his evil designs, since in effect he controls the book-keeping entries which are the counterpart of his cash book entries. He has therefore more scope for covering up theft or fraud by manipulating the daily abstract which he sends to the book-keeper.

1033. By contrast, the method of posting from carbon copies of the payment vouchers which are sent direct to the book-keeper by the internal auditor ensures that the cashier will have no access to the material from which the book-keeper debits the expenditure accounts. With regard to receipts, the receipt forms, like the payment vouchers, are serially numbered at the printing stage and one of the duties of the book-keeper would be to see that there are no gaps in the numerical sequence of the receipt forms or the payment vouchers which he is required to post.

1034. Under the system of posting from carbon copies of vouchers, while more "paper" passes between sections, control is more effective, and in choosing between the two methods discussed in this Note a good deal of weight should be given to this important advantage. The mere possibility of manipulating the daily abstract for the cashier's own advantage - which may be suggested to him by a quite innocent mistake which, he finds, goes undetected by anybody - may put ideas into the mind of the most honest cashier.

1035. On balance, therefore, the method of posting from carbon copies of payment vouchers and receipt forms is recommended as being the one under which it is best possible to secure the advantages of strictly segregating from each other the two parts of the double entry (see paragraph 211(iv) and arranging that cashier and book-keeper act as a check on each other. The procedure outlined in Parts II and III is therefore based on this method.

1036. If, on the other hand, it is decided to rely on the method of posting from the cash book, it is essential that the internal auditor should apply a very strict examination - on a 100 per cent. basis - to the cashier's daily abstract before it is sent to the book-keeper as the posting medium.

PART IV

Note 10 - Banking Arrangements

1037. The bank or banks at which the Institution will open accounts may be named in the Law which establishes the Social Insurance Institution, or there may be a provision that the Institution will use such bank or banks as the Minister of Finance (or other responsible minister) may direct.

1038. If the Law is silent on the matter, or if banking arrangements are mentioned as one of the subjects for which the Social Insurance Board will be responsible, the bank or banks to be used by the Institution should be named in the Financial and Accounting Regulations.

1039. The bank at which the Institution's main account is to be kept would in ordinary circumstances be the central bank of the country, usually a public or semi-public institution, and almost invariably the bank at which the government keeps its own accounts. There may, however, be special reasons for selecting another bank - for example, as a demonstration designed to emphasise that the Social Insurance Institution enjoys complete financial autonomy.

1040. If the Institution is to have regional or local offices other banks may also be named if they have branches (or their head offices) more conveniently situated in the cities or towns where the regional or local offices would require their services than the local branches of the bank at which the Institution's main account is kept.

1041. Another question which will arise is whether to open one general current account for all purposes, or whether to have several current accounts, each being used for a different purpose. An advantage of opening one general account is that there is only one balance to maintain against cash requirements in the immediate future, whereas separate balances would have to be maintained on each account if several accounts were opened. Opening only one general current account therefore economises in the amount of money which must be kept idle, and enables a larger amount of the Institution's surplus funds to be invested.

1042. Where more than one account is opened there would probably be a special account into which insurance contributions would be paid (if the pay-roll system of collecting contributions is in force). Employers would be directed to draw their cheques in favour of the "Insurance Contributions Account" or even to pay the cheques into the Institution's bank direct, for credit of that account, and to present to the Institution the bank's acknowledgement, and the bank would have directions to permit withdrawals from that account only on a special signature - perhaps that of the Director-General.

1043. Another account might be a "Drawing Account", to be used only for providing cash for the payment of cash benefits and salaries and wages. The account would be fed periodically in such a way as to limit to known normal requirements the amount that could be drawn from it weekly or monthly.

1044. Whether the method of opening one general account or several specialised accounts is adopted may depend on the customary practice in governmental and quasi-governmental institutions in the particular country. It is suggested, however, that such controls and safeguards as the use of specialised accounts may afford, could be obtained, under the system of running one general account, by the methods outlined in Section 3 of Part II in connection with the use of payment vouchers.

1045. Thus, every cheque for the withdrawal of cash from the general (or any other) account would have to be based on a payment voucher duly authorised by an officer specially empowered to do so and certified by an officer of appropriate grade belonging to the internal audit service, and the cheque itself would also have to be signed by an officer empowered to sign cheques of the amount involved. An additional safeguard sometimes applied is to require two signatures on cheques. Specimen signatures of all officers authorised to sign cheques, together with the limits within which they are empowered to do so, would, in any case, be supplied to the bank, whose co-operation would be stimulated by the knowledge that they would be liable for any loss that might result if they paid cash on a cheque in contravention of the customer's express instructions in this regard.

1046. The procedures dealt with in Parts II and III, in so far as they relate to banking arrangements, will be based on the assumption that one general current account will be opened for each office of the Institution (Central Office, regional offices, local offices, hospitals, etc.), but Staff Instructions will be easily adaptable if the system of opening several "single-purpose" accounts is preferred.

PART IV

Note 11 - Losses, Deficiencies and Overpayments

1047. In a perfect organisation the only losses that should occur are those which are entirely outside the control of those responsible for the administration of the organisation, e.g. losses through tempest, floods, burglary by safe-breaking, etc. The occurrence of any other types of loss provides an adverse commentary on the arrangements which have been established for administrative and financial control and should be regarded in this light. Consequently it is essential that the causes of the loss and the circumstances in which it has occurred should be thoroughly investigated, not only for the purpose of fixing blame and taking appropriate disciplinary action, if that is required, but also of pin-pointing any weakness in the organisation which may have caused or facilitated the loss, and applying the necessary corrective measures with a view to preventing similar losses in the future.

1048. With these purposes in mind a standard and systematic procedure to be applied whenever losses come to light is provided for in paragraphs 419-432.

1049. The first requirement is to ensure that, as soon as the loss, deficiency, or overpayment comes to light, it will be recorded in the double-entry system of book-keeping (debit a Losses Suspense Account - credit Cash, Insurance Contributions, one of the Cash Benefits accounts, the appropriate account of stores or supplies, or any other account which has sustained the loss). This will ensure that the loss is not lost sight of or deliberately forgotten, since the debit balance on Losses Suspense will continue to appear in the accounts submitted at the end of each month until it is cleared by the recovery of the amount of the loss or by its transfer, on the authority of the Board, to Losses Account for charge in the final Income and Expenditure Account of the Institution for the year.

1050. The next requirement is to provide for a thorough investigation of the causes and circumstances of the loss. If the amount of the loss is appreciable, or, whatever the amount, if there is any suspicion of theft, fraud or dishonesty of any kind, the loss should be reported to the Director-General, who should order the investigation and would usually set up a small committee of investigators. In other cases the loss will be reported to and the investigation ordered by the head of department concerned. (The Internal Auditor or one of his senior officers would usually be a suitable member of the committee of investigation.)

1051. The remaining provisions included in paragraphs 419-432 are mainly self-explanatory. The investigation will divide its report into two main parts. First it will deal with the causes of, and express its views on the responsibility for the particular loss under investigation. Secondly, it will look beyond the particular loss and consider whether new procedures or additional safeguards are required to prevent, or lessen the chances of, similar losses in the future. In the latter connection the investigators should consider whether any defects of procedure or practice may apply also in different parts of the Institution (including regional or local offices, hospitals, etc.) so that any remedial measures proposed would be applied not only in the section where the loss occurred but also in other sections where similar conditions were present.

1052. As there are certain kinds of more or less inevitable losses of stores through natural causes - evaporation, deterioration, etc. - which will be disclosed by shortages found on stocktaking, a means is provided in paragraphs 429-430 of exempting these, within a certain limit, from the procedure of raising a debit in a Losses Suspense Account, setting up a formal investigation, etc. Acceptance of a loss or shortage of stores without going through the formal procedure requires, however, the authority of a head of department or division and the concurrence of the internal auditor.

1053. A special kind of loss of a somewhat different type occurs when employers fail to pay the amount of insurance contributions due from them. This type of loss is not intended to be covered by the procedure discussed in this Note but will be dealt with in accordance with the provisions of the Contributions Regulations and the procedure for accounting control dealt with in paragraphs 402-418. The accounting aspect, and the method of showing in the monthly and annual accounts the amount of insurance contributions due but unpaid, are dealt with in Note 6 of Part IV.

PART IV

Note 12 - Pharmaceutical Products and Other
Medical Supplies

1054. In any scheme of social insurance which includes the provision of medical care, expenditure on pharmaceutical products, medical appliances, X-ray films and other medical supplies is likely to represent a large part of the cost of the scheme. (The term "medical appliances" is intended to include such items as artificial limbs, hearing aids, elastic hosiery, etc., and "other medical supplies" such items as clinical thermometers, stethoscopes, bandages, dressings, etc.)

1055. There are different ways in which expenditure on these items may be treated in the accounts. The simplest way would be simply to charge in the Income and Expenditure Account for any year the expenditure incurred during the year on the purchase of these supplies. This might be satisfactory enough if this expenditure represented fairly closely the amounts of medicines etc., consumed during the year; that is, if only sufficient for the year's requirements were purchased during the year so that the stocks carried forward from one year to another were more or less uniform in quantity from year to year.

1056. This, however, will rarely be the case. Medicines and other medical supplies are likely to be purchased in bulk, and - particularly in the early years of a scheme - estimates of requirements are likely to be wide of the mark in the case of many items. In consequence, the amounts carried forward from one year to another are likely to vary considerably.

1057. In order to arrive at an accurate statement of the cost, for a particular year, of pharmaceutical products, etc., it is therefore necessary to ascertain and charge the cost of the amounts consumed during the year, and in view of the need to maintain close control over this important element in the cost of providing medical care it is worth while to take some trouble to arrive at this cost. (Efficient control over expenditure on medicines and other medical requirements is a matter which has proved troublesome to a number of existing schemes.)

1058. With these considerations in view a method of ascertaining the quantities consumed is described in paragraphs 481-494, and a method of arriving at the cost of the consumption so ascertained is explained in paragraphs 824-825.

1059. If it is decided to adopt these methods and to deal with the cost of pharmaceutical products, etc., by charging, in the monthly and annual Income and Expenditure accounts the cost of the amounts consumed, an estimate of this figure should be included in the "Expenditure" part of the budget as part of the cost, for the ensuing year, of the provision of medical care. In addition, an estimate of the amount to be spent on the purchase, during the ensuing year, of pharmaceutical products, etc., should be included in the "Capital Expenditure" part of the budget. This expenditure is properly treated as capital expenditure since at the end of the year the unused portion will be carried forward to the following year and therefore shown as an asset in the Balance Sheet as at the end of the year. The amount estimated for the purchase of pharmaceutical products need not necessarily bear any relation to the amounts expected to be consumed during the ensuing year, but would have regard to the level of existing stocks of the various items at the time when the budget is drafted, and also, perhaps, to commercial considerations if large purchases have to be made abroad.

1060. If it is thought that there would be an element of unreality in treating an item of which a large part will be consumed during the year as capital expenditure, this could be avoided and the amount which it is proposed to spend on purchasing the supplies during the ensuing year, instead of the estimated cost of consumption, could be included in the budget among the items representing the cost of the provision of medical care. In that case the cost of consumption would still, however, be shown in the annual Income and Expenditure Account, and the value of stocks in hand at the end of the year would be included among the assets in the Balance Sheet. Expenditure in relation to the budget figure could be exhibited in an inner column of the Income and Expenditure Account as under:

Stock in hand at (beginning of year)	.....
<u>Add</u> Purchases during year	.....
	<hr/>	
	
<u>Less</u> Stock in hand at (end of year)	.....
	<hr/>	
Value of consumption during year		.....

1061. On the whole the method of budgeting for consumption and also for purchases to be made during the ensuing year as described in paragraph 1059 above is to be preferred, and this is the method which has been adopted, and for the application of which suitable accounting arrangements are described in detail in this study.

1062. Under both methods stocks in hand at the end of the year as shown by the stock records (kept only in quantities, or weight, volume etc., as appropriate) will be verified by stocktaking and their values shown on the Assets side of the Balance Sheet.

1063. Under the method preferred - see paragraph 1061 above - expenditure on purchases during the year would, however, be shown in the Capital Expenditure Account, in order to show actual expenditure in relation to the amount included for purchases in the budget as approved.

1064. The arrangements described and the forms as drafted for use in applying these arrangements (see Part V) provide that each of the four main groups - pharmaceutical products, medical appliances, X-ray films, and other medical supplies - shall be accounted for separately. Even if budget estimates are made in one composite figure for all the groups (see the Appendix (following paragraph 606) to the draft Financial and Accounting Regulations), it will be desirable to account separately for these groups (or any other groups that may be desired) whether or not separate figures for the different groups are given in the monthly and annual accounts. This will provide important additional information and conduce to better control of this large item of cost.

PART IV

Note 13 - Expenditure on the Maintenance of
Properties Let

1065. Properties belonging to the Institution which are let to produce income by way of rents will be either premises surplus to requirements - as, for example, where the Institution owns or rents office premises which are too large for immediate requirements and lets or sublets the surplus accommodation - or properties purchased as an investment and let to produce income.

1066. In both cases it is desirable to isolate the expenses of maintenance. Such expenses are in no sense part of the true cost of administration. In the case of accommodation surplus to requirements which is let, the true cost of administration is the cost of maintaining only the accommodation used as office premises. The expenses of maintenance of the surplus accommodation let, and also the expenses of maintenance of properties purchased as an investment, should be regarded as off-sets against the income earned, or as the necessary cost of earning the gross income.

1067. The expenditure in question is included in the expenditure estimates in order to enable the Board to control the amount to be spent on maintenance, repairs, insurance, and other landlord's expenses, in relation to the rents to be received from the tenants. But these expenses are approved under a separate head of the estimates and will, of course, be accounted for separately.

1068. The expenses might be shown in the Income and Expenditure Account as a deduction from the gross rents received, so that the income would be shown net. To facilitate comparison with the amounts approved in the estimates, it will perhaps be better, however, to show the expenditure on the debit side of the Income and Expenditure Account like the other expenditure authorised in the approved estimates, and the rents from the properties gross on the Income side.

1069. Where sectional Income and Expenditure accounts for the different branches of insurance are presented, the rents of properties let would usually be credited to the "Administration" sectional account, and consequently the expenses of maintenance would be debited to that account, but as a separate item. If, however, it should happen that any particular properties let are regarded as investments of a branch of insurance other than "Administration", the rents received therefrom would be credited gross to the Income and Expenditure Account of the branch and the corresponding expenses of maintenance would accordingly be debited, as a separate item, to the same account.

PART IV

Note 14 - The Balance Sheet - Order in which
Items are Shown and Basis of Valuation

1070. While the Income and Expenditure Account shows the results of the financial operations which have been carried out during the period covered by the account, the Balance Sheet shows the financial position at a particular point in time, which is the close of business on the date of the Balance Sheet.

1071. The balances of the accounts which represent income or expenses are transferred to the Income and Expenditure Account, which therefore shows the net gain or loss for the period, and this leaves the balances of accounts other than those representing income or expenses - that is, the balances which represent assets and liabilities - to be shown in the Balance Sheet (see paragraphs 908-910 of Note 1 of Part IV).

1072. To take the Assets side first, it is customary to show the items in order of liquidity. In the case of a Social Insurance Institution it is best to start with the most liquid assets, i.e. cash, and bank current account balances, and to finish with the least liquid, i.e. real estate and any intangible assets. The order suggested is shown in paragraph 854.

1073. The Liabilities, on the other side of the Balance Sheet, should be arranged in corresponding order, which would be order of "payability". Thus the most immediate liabilities will be shown first - cash benefits due but unpaid at the date of the Balance Sheet - and so on by way of other liabilities and the specific Reserves until the last item is the Social Insurance Fund, the basic capital fund of the organisation. The order suggested is shown in paragraph 857.

1074. The remainder of this Note deals with the basis on which the assets should be valued for presentation in the Balance Sheet. In a sense it is true to say that no problem arises since the amount shown in the Balance Sheet is simply the balance of the asset account, whatever that may be. This easy answer, however, evades the question of adjusting the balance of the asset account, by depreciation or otherwise, before preparing the Balance Sheet.

1075. Different sorts of assets require different treatment. Cash in hand and balances on current or deposit account at banks will, of course, be shown as the actual amounts. Amounts due from sundry debtors, if any, is likely to be quite a small figure and can be shown at its face value unless there exists any special reason for creating a reserve against bad debts. (It will be remembered that this item excludes amounts due from employers in arrears with insurance contributions - an item which is dealt with specially by a footnote to the Income and Expenditure Account - see Note 6 of Part IV.)

1076. In accordance with the usual practice investments in securities will be shown at cost price. They will generally be held as income-producing assets which it is not intended to sell, at any rate not in the immediate future. Therefore minor fluctuations of market value from year to year will be ignored, although if at the date of the Balance Sheet market value is below the cost price at which they are shown, it is customary to state the market value in a footnote to the Balance Sheet.

1077. Stocks of pharmaceutical products, medical appliances, X-ray films and other medical supplies should be valued at cost, or, if the cost price has varied during the year, at a valuation based on a weighted average price - see paragraph 825.

1078. Of the remaining items to be shown on the Assets side of the Balance Sheet, unexhausted balances carried forward, and preliminary expenses, in so far as not written off, will be shown at the face value of the balances brought down on the accounts concerned. With regard to unexhausted balances carried forward it will be necessary to value the stocks of forms, publications, office supplies, etc. still available at the end of the year and, if the value so ascertained is appreciable, to bring down the resulting figure as a balance to be carried forward to the following year - see paragraphs 880-881.

1079. This leaves only the "fixed" (as distinguished from "floating") assets - the equipment of every sort and the office premises, hospitals, dispensaries and other buildings owned by the Institution. These items will be shown in the Balance Sheet at the figure at which they

appeared in the previous year's Balance Sheet, to which will be added the cost of any additions during the year, and from which will be deducted the depreciation written off during the year. It is best to show these amounts in an inner column and to carry the resulting figure, after deducting the depreciation, to the outer column. One of the end-of-year adjustments required will be to make the necessary entries in respect of depreciation for the year and it will be after these entries have been made that the books will be closed and the final accounts for the year prepared.

1080. The subject of depreciation is discussed in Note 4 of Part IV, and the requirement that it must be provided for each year is laid down in the draft Financial and Accounting Regulations (paragraphs 583-584).

PART IV

Note 15 - Loose-Leaf Ledgers

1081. An alternative to bound ledgers which have a fixed number of pages is loose-leaf ledgers, where ledger sheets can be extracted from and inserted into expanding binders as required.

1082. The main advantages of loose-leaf ledgers are:

- (1) the ledgers contain at any time only the pages currently in use, and there are no blank pages; dead or closed accounts can be taken out and filed separately in "dead" ledgers;
- (2) the accounts can be arranged in any desired order, e.g. numerically according to registered number (in the case of employers) or alphabetically, and new accounts can be inserted in their proper place in the order without difficulty;
- (3) an account, however many pages it may require, is continuous, not scattered over different parts of the ledger.

1083. The main disadvantages are:

- (1) ledger sheets may be accidentally or deliberately lost or destroyed;
- (2) fresh sheets may be fraudulently substituted for others in order to commit or conceal fraud.

1084. The risk of fraud can be guarded against, and probably eliminated, by using binders which are fitted with a patent locking device the key of which would be retained by the senior officer of the Finance and Accounts Division who is responsible for the control of documents of potential value. In addition, blank ledger sheets would be treated as "controlled documents"; they would be serially numbered when they were printed and would be subjected to the controls explained in paragraphs 360-367.

1085. Loose-leaf ledgers would be particularly suitable for the Sundry Debtors, Employers in Arrears, and Sundry Creditors Ledgers, but only if the safeguards referred to in the preceding paragraph were strictly applied.

1086. In so far as the accounting scheme, or any part of it, is mechanised (see Note 16 of this Part), the use of loose-leaf ledgers will be essential, so that ledger sheets can be introduced individually into accounting machines.

PART IV

Note 16 - Mechanised Accounting

1087. If a scheme is big enough to require the employment of a considerable number of clerks on the work of recording, and if there is a really large volume of transactions of the same kind, e.g. collection of contributions or payment of benefits, the desirability of installing accounting machines to perform the work should be carefully considered - either for the particular recurring transactions mentioned or for the scheme of accounting as a whole.

1088. The principal factor to be taken into account will be the relative cost of a machine installation as compared with the cost of hand-written accounting. If the machines are hired the annual charge for hiring and servicing plus the salaries of the machine operators would be set against the salaries of the "pen and ink" staff. If the machines are purchased outright, the amount to be compared with the salaries of the manual clerks would be interest on the capital tied up in the machines plus the salaries of the machine operators and the cost of maintenance and depreciation of the machines.

1089. The result of this comparison would not necessarily, however, be conclusive. Other factors to be considered would be - in favour of installing machines - the virtual certainty of complete accuracy in the recording, the vastly increased neatness and legibility of the accounts and statements produced, and the increased speed at which these can be submitted; it might be possible, moreover, to arrange to share the use of machines, and therefore their cost, with some other organisation that might use them part-time. Against the installation of machines the principal considerations would be the risk of breakdown, and, possibly in some countries, the difficulty of obtaining reliable and prompt servicing and repair facilities; another factor to be borne in mind is that at small subsidiary offices it would in any case be necessary to perform the accounting by manual means, and the Institution would thus be obliged to train machine operators and manual accounting clerks as well.

1090. In a case when these considerations, for and against, are fairly evenly balanced, or even where on grounds of annual cost the decision would probably be slightly against installing machines, a good deal of weight should nevertheless be given to the factors of accuracy and speed and the invigorating effect of these advantages on the organisation as a whole. The possibility of expansion of the size and scope of the social insurance scheme in the future should also be borne in mind, and it might be wise to allow these intangible considerations to tilt the balance in favour of a mechanised scheme.

Principles of Accounting Remain Unaltered

1091. The principles of accounting described in this study apply equally whether the accounting scheme is mechanised or not. Thus, in both kinds of operation, accounting is by the system of double-entry book-keeping; the same facts have to be recorded and the same accounts kept; the same form of final accounts would be presented. There would be no change in the arrangements for the authorisation and the pre-payment check of payments (and the corresponding procedures for receipts and accounting transfers), the control of medicines and other stores by stock records and stock-taking would still be required, and the duties suggested for the internal audit service would lose none of their importance (although methods of performing some of these duties would have to be adjusted in a mechanised scheme). In any event, as noted in paragraph 1089 above, manual methods of accounting would still be required at small subsidiary offices, and the monthly account to be submitted to Central Office would continue to be submitted on Form FN17 as explained in paragraphs 798-804.

Methods and Techniques of Machine Accounting

1092. The principal change which mechanisation entails is that all entries in accounts are made by a machine in typescript, and that the machine also performs all the additions and subtractions required. Loose-leaf ledgers are, of course, used (see Note 15 of this Part) so that individual ledger sheets can be introduced into the machine.

1093. Another feature is that every account is arranged with three columns together at the right-hand side of the account, one for debits, one for credits, and the third for the balance. The balance is mechanically ascertained and entered in the "Balance" column after every entry, a facility which removes the need for any end-of-month ascertainment of the balances of all the accounts prior to the compilation of a Trial Balance. It is simple, in fact, to take out a Trial Balance daily, and, indeed, at any time during the day. Moreover, short of some unnoticed mechanical failure, which is extremely rare, the balances extracted and the addition of the two sides of the Trial Balance are always arithmetically correct.

1094. In mechanised accounting the same posting media would be used as in a hand-written system, i.e. copies of the payment voucher, the receipt form and the accounting transfer authority, and the posting to the ledger accounts would be done in batches, debits and credits being posted in separate batches.

1095. One of the techniques by which correct posting is proved is to make, before the posting is commenced, a machined "pre-list" tabulation and total of all the items in the batch to be posted. Posting to the ledger accounts from the posting media then takes place, the machine at the same time making, on a separate "summary sheet", a carbon tabulation and total of all the entries posted. At the end of the posting of the batch this total is compared with the "pre-list" total and the correctness of the posting is thus proved.

1096. There is a similar device by which it can be proved also that the postings have been made to the correct accounts. A separate "pre-list" total is made of the code numbers of the accounts stated on the posting media as requiring to be debited, or credited, as the case may be. During the posting a similar tabulation and total of the code numbers of the accounts which have been posted is made, and an agreement of these totals will provide virtually 100 per cent. proof that all the items have been posted and posted to the correct account in each case. (No similar assurance is obtained so easily in book-keeping by hand-written methods.)

1097. The totals of the summary sheets referred to in paragraph 1095 above can, if desired, be posted to "Control" accounts for inclusion in Trial Balances in place of the balances of the individual accounts, which may be too numerous for convenient listing individually. If posting is verified batch by batch as explained above there should be no difficulty in obtaining a first-time agreement of the Trial Balance whenever it is compiled.

1098. It is not necessary nowadays to use carbon paper to obtain duplicate copies of postings, tabulations, etc. Special stationery can be supplied impregnated on the back with carbon or other chemicals, by means of which copies can be made without the inconvenience of introducing carbon paper specially. (This device of specially impregnated stationery can be used, if required, to obtain a copy of certain parts only of the top impression, omitting any details which are inessential for the particular purpose in view.)

Punched-Card Installations

1099. Another type of mechanical installation which is used for accounting purposes depends on the device of punching holes in cards in such a way as to record numerical or other data by a code based on the particular spaces on the cards in which the holes are punched. The cards are then passed through machines of various kinds, which perform different operations as may be required.

1100. In addition to the Typewriter Card Punch which punches the cards in the first place through the operation of a keyboard, the principal machines in a punched-card installation are the Verifier, the Sorter, the Tabulator and the Interpreter.

1101. The cards, after being punched for the first time, are put through the Verifier one by one and the operator actuates the keyboard a second time, working from the original posting media. If there is any discrepancy between the first and the second operation of the keyboard the Verifier signals the fact. If there is no such signal, it can be taken that the punching has been correctly done.

1102. When a batch of cards passes through the Sorter the machine senses, by mechanical or electrical means, the position of the holes, or any particular group of holes, in the cards, and by this means selects and arranges the cards, at very great speed, in any groups or sequences desired.

1103. The Tabulator transcribes on a strip of paper, or on ledger sheets, etc. the values recorded on the cards or any particular data thus recorded, and, with or without transcribing individual amounts provides a totalled list of the values so recorded. The Interpreter prints in ordinary characters on a card the meaning indicated by the punched holes.

Mechanisation of Social Insurance Accounting

1104. Among the operations which might most readily lend themselves to mechanisation are:

the compilation of the daily record of payments of cash benefit;

the compilation of the daily record of sales of insurance stamps (or of receipts from employers of insurance contributions under the pay-roll system of collection);

stock accounting (see paragraphs 495-500);

the compilation of the staff pay-rolls;

the whole of the work on Sundry Debtors Ledgers (including Employers in Arrears) and Sundry Creditors Ledgers.

1105. Accounting machines would be particularly suitable for the work on stock-accounting, pay-rolls, and personal ledgers, but it will be understood that many of the forms contained in Part V would have to be redesigned for use with the particular type of machine by which they would be completed. The rulings for ledger accounts would also have to conform to the characteristic lay-out for mechanised accounts by which debit, credit, and balance columns are arranged next to one another on the right-hand side of the ledger sheet.

1106 Some Latin American countries have successfully introduced a punched-card installation to handle the accounting work relating to the collection of insurance contributions by the pay-roll method. When schedules of insured workers are received from employers accompanied by a remittance for the total amount shown as due, a card is punched for each receipt given to the employer, and a machine total of all the cards for a day gives total receipts in respect of insurance contributions for that day for crediting to Contributions Account. By punching additional items such as the contribution period in respect of which the payment is made, particulars of the employer, etc. the same set of cards might be used to produce, for the purpose of control, tabulations showing the list of employers in arrears with the payment of contributions, as well as to process useful statistical information about the collection of contributions.

Statistics

1107. Installing accounting machines brings the incidental advantage of greatly facilitating the compilation of the extensive statistical information required for actuarial and management purposes. The machines can be used for statistical compilation at times when they are not required for accounting work. In addition, however, particularly if punched-card machines are in use, many of the statistics required will be obtainable as an incidental by-product of the information recorded for accounting purposes.

1108. In this connection the use of the Sorter is invaluable. Most sorters have 10 to 12 pockets, and out of a batch of cards fed into the machine will select and sort into the appropriate pocket cards distinguishable according to a numerical code. Thus the cards can be separated according to sex, age group, type of benefit, wage group or any other classification indicated by the different position of holes punched in the card. Cards thus isolated can then be tabulated mechanically and the desired analysis of the batch thus obtained.

Preliminary Discussions

1109. Before embarking on a mechanised scheme of accounting, whether at the outset of a new scheme of social insurance or by way of a change from a completely handwritten scheme, it will be advisable to discuss the matter

thoroughly with representatives of more than one of the companies which supply mechanised accounting installations - a number of these companies are international in their scope. Accounting or punched-card machines have many different features and it is possible that a company's standard machines may be capable of adaptation by the incorporation of some of these features to meet the rather special requirements of a social insurance scheme as compared with those of a commercial or industrial undertaking.

1110. The companies will wish to know in detail exactly what the requirements of the particular scheme are, and in the light of the knowledge they will be able to suggest the particular types of machine best suited to the circumstances and requirements to be met and will submit specifications and tenders accordingly. It will then be for the Board or other governing body of the social insurance organisation concerned to make their choice in the light of price, expected performance and any other relevant considerations.

Pilot Scheme

1111. In cases where it is decided to change over to mechanisation from a wholly hand-written scheme, a useful device for the purpose of testing the working of the new arrangements before they are introduced is to arrange a trial run or pilot scheme for a section of the work, to run for a time in conjunction with the old arrangements until experience is gained of operating the new arrangements. The different sections of the accounting organisation can in this way be mechanised in turn and any hitch that might possibly otherwise arise out of the introduction of the new methods will thus be avoided.

PART IV

Note 17 - Internal Audit

1112. Internal audit differs from external audit mainly in two respects. Firstly, the external audit is usually imposed by the legislation which establishes the Social Insurance Institution, its purpose being to have the annual accounts of the Institution examined and certified by an auditor entirely independent of the Board or other governing body, before they are submitted to the responsible authority and published for the information of the legislative body and the public generally. An internal audit, on the other hand, is set up by the governing body for its own purposes; the Internal Auditor and his assistants are members of the staff of the Institution, responsible to and reporting to the governing body.

1113. The second main difference arises out of the first and relates to the scope of the audits. The main object of the examination performed by the external auditor is to enable him to give the certificate required of him on the annual accounts. The aims of the internal audit are much wider, and include not only checking the annual accounts for correctness and conformity with the law (which the external audit is also responsible for) but checking also the monthly accounts submitted to the governing body and carrying out many other checks and investigations on behalf of the governing body in order to assure the governing body that the funds for which they are responsible are being efficiently and economically administered. These duties will include checking that adequate safeguards against fraud and other malpractices are being properly observed and applied, that all the income due to the Institution is being duly collected (or written off as irrecoverable under the authority of the Board), and, in general, that the Regulations and the staff instructions contained in the Accounting Code are being properly and intelligently carried out.

1114. There may be some overlapping between the internal and the external audit. As to this, it is established practice among the best professional auditors, when they undertake an external audit, to inquire at the outset how much of the field is covered by the internal audit and to make their own plans accordingly. The quality of the internal audit, will, of course, be an important consideration, but if satisfied on this point the external auditor can be expected to arrange his programme of examination in such a way as to

avoid overlapping as far as possible. An important result will be that the existence of an efficient internal audit should considerably reduce the time that would otherwise be spent on the external audit, and therefore its cost.

1115. To achieve this result there would have to be good co-operation between the internal and the external auditor. This might involve, for example, making available for the external auditor's inspection the reports of the internal auditor and the papers dealing with the action, if any, taken thereon, a practice which has much to commend it apart from its advantage in reducing the time and cost of the external audit.

1116. Section 7 of Part II (paragraphs 508-564) describes the main functions which an internal audit service of the kind described above would be expected to perform, the status which the Internal Auditor and his staff should have and the place in the financial and administrative organisation which they should occupy. As stated in the first paragraph of the section, the Internal Auditor appointed should be a senior officer of high technical qualifications and wide administrative experience and in the case of a small country embarking on social insurance for the first time it is possible that there may be some difficulty in finding and recruiting an officer who completely fulfils these requirements.

1117. If this is the case a distinction might perhaps be made between the duty of the internal audit to act on the one hand as a preventive audit by checking and certifying payment vouchers before payment and receipts and accounting transfers before they are posted by the book-keeper, and, on the other hand, as a post-payment examiner of the monthly and annual accounts and as a watch-dog to see that accounting safeguards and controls are properly applied. If the former function is provided for at the outset and an adequate preventive audit thus established, the commencement of the scheme need not perhaps be delayed until complete arrangements for internal audit can be made, although it would be imperative that efforts should be continued to provide for the other highly important internal audit functions mentioned. These would require to be carried out in any event before the end of the first accounting period.

1118. The duties of the internal audit service described in Section 7 of Part II envisage a continuous audit at the offices of sub-accountants - local or regional offices, hospitals, dispensaries, etc. - including the pre-payment certification of payment vouchers, etc. and the certification of the monthly account to be submitted by the sub-accountant to the Central Office. This implies an official of the internal audit service continuously stationed at each sub-accountant's office.

1119. In the case of a small scheme or a small sub-accounting office of a larger scheme there may not be sufficient work to justify the stationing of a full-time internal auditor at the sub-accounting office. In such cases the audit duties could possibly be combined with other duties on a part-time basis, or perhaps the audit work could be performed by means of visits of internal audit staff from the Central Office. In view, however, of the duty of the internal auditor to perform the pre-payment check and certification of payment vouchers, these visits would probably have to be made daily.

1120. In any event the organisation and duties described in Section 7 of Part II, while suitable for a scheme of average size, should be regarded as sufficiently flexible to be adapted to meet the needs of different sizes of schemes and different circumstances of their operation. In no case, however, should the internal audit arrangements described be invoked as justification of overstaffing, or employment of audit staff on less than full-time duties.

PART V

Model Forms and Rulings of Accounts

Section 1 - Foreword

1121. This Part contains suggested drafts of forms to be used to carry out the procedures outlined in Parts I - IV, and suggested rulings of pages for the ledgers and other accounting records required.

1122. The following principles have been followed in drafting these forms and rulings:

- (1) Each form, in addition to containing the figures or other information to be conveyed, serves as far as possible also as an action sheet. Thus the signatures which are required in each part of of the form show at any time how far the required action has been taken. In addition, the signatures serve to determine responsibility for the correctness or otherwise of the action certified as taken, or the information given.
- (2) Cross-references are required throughout, so that any particular transaction can be easily traced from ledger account back to the original documents on which it is based, or forward from these documents to its final record in the book of account. This facilitates audit, or search for an error in posting if the books are found for any reason not to balance.
- (3) The system of pre-payment checks by the internal audit service, the importance of which is discussed in Note 3 of Part IV (paragraphs 925-944), has been provided for on Form FN1 (Payment Voucher) and the principle has been extended to cover receipts and accounting transfers. Hence Forms FN2 and FN3 as well as FN4 require the signature of a representative of the internal audit service before the transaction is recorded.

1123. The link between the accounts kept at subsidiary offices (regional or local offices, hospitals, dispensaries, etc.) and the Central Office account books from which the monthly and annual accounts of the Institution as a whole are prepared, and which must of necessity therefore include the operations of the Institution as a whole, is provided by Forms FN17 and FN18, A, B and C. Form FN17 provides the means by which the financial transactions of the subsidiary office are reported to the Central Office and incorporated in the Central Office books of account, and Forms FN18, A, B and C, serve a similar purpose in reporting - in quantities, weight, volume, etc. - the usage during each month of pharmaceutical products and other medical requirements. Forms FN18, A, B and C can be used whether or not the subsidiary office has kept records of issues of the pharmaceutical products, etc.

1124. When some of the forms are used continuation sheets may be required. This will be either because there will be too many individual entries for a single form, e.g. Form FN7 (Daily record of payments of cash benefit), or Forms FN18, A, B and C, (see preceding paragraph) where the number of items having separate Code numbers, from which issues have been made, may be too large to be accommodated by the limited number of analysis columns which it is possible for one sheet to contain. Where continuation sheets require to be used the certificates to be given on the form will be completed only on the last sheet.

1125. In connection with the use of Forms FN18, A, B and C referred to in the preceding paragraphs it will be noticed that only the first part of Parts I and II, and the certificates in Parts III and IV will be completed at the hospital, dispensary, etc. The lines of Parts I and II which deal with the pricing will be completed by Finance and Accounts Division, Central Office, when the forms are received there. The Summary in Part V and the certificate in Part VI of the form will also be completed by Finance and Accounts Division, Central Office, on the last sheet of the form for the month.

1126. The suggested rulings for the ledgers, etc. listed in Section 3 of this Part can be used either for bound books of account or loose-leaf ledgers. Note 15 of Part IV (paragraphs 1081-1086) discusses the advantages and disadvantages of using loose-leaf ledgers.

1127. The draft forms and rulings have been reproduced on paper of a size convenient for binding as part of this study, or paper which can be folded to this size. If the forms are printed to be used for a particular scheme they should, as far as possible, be produced in sizes which are standard in the country where they are to be used.

1128. As regards the ledgers, some may require to be larger than others. The Expenditure Ledger, for example, may have to be large enough to contain many analysis columns for some of the accounts. It is a mistake to insist on having ledgers of uniform size if in some of the ledgers entries have to be compressed into space which is really too small. The trouble likely to be caused by this will far outweigh any convenience to be expected from having all the ledgers of the same size.

1129. It should be noted that the forms and rulings of accounts are for guidance only. They have been drafted to show with some precision how the procedures described in Parts I - IV could in practice be operated, and to illustrate the application in detail of the principles referred to in paragraph 1122 above. The draft forms and rulings will doubtless have to be adapted to serve the purposes of a particular scheme, but it is hoped that the models given will enable this to be done while at the same time the principles referred to are faithfully applied.

1130. As pointed out in paragraph 1105 of Note 16 of Part IV (Mechanised Accounting) any forms, ledger sheets, etc. which have to be used in connection with a mechanised system would have to be redesigned to suit the particular machines by which entries would be made on them. In order to make the best use of mechanisation, the size, arrangement and lay-out of the forms, ledger sheets, etc. (which might also be impregnated on the back with carbon or some other chemical to avoid the need to insert carbon paper - see paragraph 1098 of Note 16) would be a matter to discuss with the suppliers of the machines.

PART V

Section 2 - Draft Rulings of Forms

Contents

FN1	-	Payment Voucher
FN2	-	Receipt Form (the top copy for the payer)
FN3	-	Receipt Form (copies for inner use only)
FN4	-	Authority for Accounting Transfers
FN5	-	Entry Note
FN6	-	Delivery Note
FN7	-	Daily Record of Payments of Cash Benefit
FN8	-	Valuables Book
FN9	-	Register of Controlled Documents
FN10	-	Form of Invoice and Receipt for Controlled Documents (Part I)
FN11	-	Form of Invoice and Receipt for Controlled Documents (Parts I-II)
FN12	-	Amounts Authorised on Payment Vouchers but Unpaid at End of Month
FN13	-	Cash Benefits Due but Unpaid at End of Month
FN14	-	Cashier's Daily Record of Sales of Insurance Stamps
FN15	-	Cashier's Daily Record of Receipts from Employers in Respect of Insurance Contributions
FN16	-	Notification of Arrears of Insurance Contributions
FN17	-	Monthly Statement of Accounts by Sub-Accountants
FN18A	-	Statement of Consumption of Pharmaceutical Products
FN18B	-	Statement of Consumption of Medical Appliances
FN18C	-	Statement of Consumption of X-ray Films and Other Medical Supplies
FN19	-	Stock Record Card
FN20	-	Annual Review of Supplies for Purposes of Financial Estimates
FN21	-	Inventory Book
FN22	-	Requisition
FN23	-	Total Cost of Consumption of Pharmaceutical Products, etc.
FN24	-	Central Office Insurance Stamps Stock Record
FN25	-	Insurance Stamps Stock Record

I PAYMENT VOUCHER (Printed Serial Number)

Date	Amount	Payee	Purpose of Payment or Quantity, Weight, Etc. of Goods Purchased	Code No. of Goods	Code No. of Account to be debited

II*

I certify that the above-mentioned goods have been received correct in quantity, weight, etc. and in good condition; that Entry Note No. has been issued, and that the goods have been taken on charge on
 (date)

on Stock Record Card* No.
 in Inventory Book* Folio

(Date) (Signature)
 Storekeeper or Pharmacist

* Delete this part if the payment is not for goods.

III

I certify that the rate or price charged is according to contract*;
 fair and reasonable*; that the amount payable is otherwise correct; that the account to be debited is as stated above; and I authorise the payment.

(Date) (Signature)

IV

I have checked the details given in Part I and am satisfied as to the admissibility and correctness in all respects of the amount payable and the account to be debited.

(Date) (Signature)
 Internal Audit Department

V

Payment has been made by cheque as under:

Date of payment No. of cheque
 Cash Book reference: Folio No. of entry

(Signature of Cashier)

VI

Received on (date) the sum of in payment of the amount due as stated in Part I above.

Cash Book reference:
 (Signature (or thumb print) of payee)

Folio No. of entry
 Signature of Cashier

VII

(To be completed only on the blue copy) Payment posted as under:

Account (Code No.) Folio
 No. of entry Date

*Delete whichever is inapplicable

.....
 (Signature of Book-keeper)

..... Social Insurance Institution (Printed Serial Number)
.....

RECEIPT FORM (TOP COPY - WHITE)

Received from
the sum of
(amount in words)
by cheque*
in cash* in respect of
by postal remittance*
..... (Signature)
(Date) (Amount in figures) Cashier
..... Office
* Delete where inapplicable

Form FN2 [Suggested size 10 x 20 cms] (as top of Form FN3)

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..... Social Insurance Institution (Printed Serial Number)
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RECEIPT FORM

I			
Received from			
the sum of (amount in words)			
by cheque* in cash* in respect of by postal remittance*			
..... (Date)	..... (Amount in figures)	(Signature) .....	..... Cashier
		.....	Office
*Delete where inapplicable			
[TOP (WHITE) COPY TO END HERE]			
II			
Entered in Cash Book: Folio		No. of entry	
Account to be credited		(Signature) (Cashier)	
III			
Approved for credit as above		(Signature) Internal Audit Department	
IV Amount received posted as under:			
Account		Folio	
No. of entry		Date	
		(signature) Book-keeper	

Form FN3

[Suggested size 20 x 20 cms]

100

100

100

100

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100

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100

100

100

100

100

100

100

Serial No. of Authority

AUTHORITY FOR ACCOUNTING TRANSFERS

I I authorise the following accounting transfer(s) <div style="display: flex; justify-content: space-between; margin-top: 10px;"> (Date) (Signature) Finance Division </div>				
Accounts to be debited and credited, and purposes of the transfer(s)	To be completed by Book-keeper		Debit	Credit
	Folio	No. of Entry		
Totals				
II Above transfer(s) approved. <div style="display: flex; justify-content: space-between; margin-top: 10px;"> (Date) (Signature) Internal Audit Department </div>				
III Entries made as noted in reference columns of Part I <div style="display: flex; justify-content: space-between; margin-top: 10px;"> (Date) (Signature) Book-keeper </div>				

(Printed serial number)

.....

..... Social Insurance Institution

ENTRY NOTE

Received from				
the under-mentioned goods			FOR OFFICE USE ONLY	
Quantity, Weight, Volume etc. (as appropriate)	Description	Code No.	Goods taken on store charge as under	
			No. of Stock Record Card	Folio of Inventory Book
Date (Signature) (Storekeeper or Pharmacist)				

Form FN5

[Suggested size 20 x 20 cms]

..... Social Insurance Institution

(Printed serial number)

..... Office

.....

DELIVERY NOTE

I

The Storekeeper*/Pharmacist*/Authorised Officer*

Please make the issues detailed below

(Signature)

(Date)

Quantity, Weight, etc. (as appro- priate)	Description	Code No.	To whom to be issued	Date of issue (to be inserted when issue made)

II

Received the stores*/pharmaceutical products, etc.*/insurance stamps* detailed above.

(Signature)

(Date)

Note - Blue copy of form to be returned to sender as soon as Part II has been signed.

*Delete items inapplicable

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Sheet No.

[illegible]

..... Social Insurance Institution

..... Office

VALUABLES BOOK (Specimen page)

(No. of page)

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Date	No. of Entry	Description of item	Reference*	Signatures of post-opening officials	Disposal of items	
					Date	Signature of official acknowledging receipt
				1. 2.		
				1. 2.		
				1. 2.		
				1. 2.		
				1. 2.		
				1. 2.		
				1. 2.		
				1. 2.		
				1. 2.		
				1. 2.		

[illegible]

(Note - A separate opening should be used for each

Description or Code No. of

R E C E I P T S

Date	From whom received	Number of Documents	Serial Nos.		Entry Note		Signature acknowledging receipt
			From	To	No.	Date	

Form FN9

..... Social Insurance Institution

..... Office

FORM OF INVOICE AND RECEIPT FOR CONTROLLED DOCUMENTS

Mr.

..... Office

Please receive herewith the undermentioned documents

(Date) (Signature)

Description or Code No.	Number of Documents	Serial Nos.		Remarks
		From	To	

Form FN10 (as top of Form FN11)

..... Social Insurance Institution

..... Office

FORM OF INVOICE AND RECEIPT FOR CONTROLLED DOCUMENTS

I

Mr.

..... Office

Please receive herewith the undermentioned documents

(Date) (Signature)

Description or Code No.	Number of Documents	Serial Nos.		Remarks
		From	To	

II

Received the above-mentioned documents correct in quantity and bearing the serial numbers as stated.

(Date) (Signature)

Note: Blue copy of form to be returned to sender as soon as Part II has been signed.

..... Social Insurance Institution

..... Office

Sheet No.

AMOUNTS AUTHORISED ON PAYMENT VOUCHERS BUT UNPAID AT END OF MONTH OF 196.

Payment Voucher		Amount	Analysis as between Code Nos. of accounts to be debited (use continuation sheet if necessary)														
Date authorised	No.		A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C	A/C
Total																	
I. I certify that the above is a correct statement of amounts authorised on payment vouchers but unpaid on the last day of the month of 196. (Date) (Signature) (Book-keeper)																	
II. Above statement checked and approved (Date) (Signature) Internal Audit Department																	
III. Accounts indicated in the analysis columns have been debited and Account 54 credited on the basis of the above statement by means of FN4 No. (Date) (Signature) Book-keeper																	

..... Social Insurance Institution

..... Office

Sheet No.

CASH BENEFITS DUE BUT UNPAID AT END OF MONTH OF 196.

Payment Schedule			Amount Unpaid	Analysis of amounts unpaid						
Type of Form	Serial No.	No. of Entry		Sickness Benefit Pension A/C 17-01	Maternity Benefit Pension A/C 17-03	Injury Benefit Pension A/C 17-05	Funeral Grant Pension A/C 17-13	Total Disability Pension A/C 17-07	Partial Disability Pension A/C 17-09	Survivors' Pension A/C 17-11
Total										

I. I certify that the above is a correct statement of cash benefits due but unpaid on the last day of the month of 196. on payment schedules still open at that date.

(Date) (Signature)
Cashier

II. Above statement checked and approved (Date) (Signature)
Internal Audit Department

III. Cash Benefit accounts debited and Account 52 credited on the basis of the above statement by means of FN/ No.

(Date) (Signature)
Book-keeper

CASHIER'S DAILY RECORD OF SALES OF INSURANCE STAMPS

[illegible]

..... Social Insurance Institution

..... Office

CASHIER'S DAILY RECORD OF RECEIPTS FROM EMPLOYERS
IN RESPECT OF INSURANCE CONTRIBUTIONS
(Other than receipts in liquidation of arrears)

[illegible]

..... Social Insurance Institution
 (Printed Serial No.)
 Office

NOTIFICATION OF ARREARS OF INSURANCE CONTRIBUTIONS

I. Name of Employer

Registered No.

The Chief Finance Officer, Office,

The following confirmed*
 approximate* information relating to arrears of insurance
 contributions due from the above-mentioned employer is notified.

Inspector's Report		Number of employees affected	Period of arrears		No. of weeks	Weekly contribution	Amount of Arrears
Date	No.		From	To			
		(Category 1)					
		(Category 2)					
		(Category 3)					
		Etc.					
Total							

* The default was notified to Legal Division on (date) for consideration of legal action to obtain payment.

* The employer has given the following undertaking - which has been accepted - for payment of the arrears by instalments*/in one sum of* You are requested to accept payment(s) in accordance therewith or to report to me if the employer fails to pay as undertaken.

(Details of Undertaking)

(Date) (Signature)
 Chief of Contributions Division

* Delete whichever is inapplicable.

- II. (1) Internal Audit Department.
 (2) Book-keeper.

FM4 No. attached for necessary action

(Date) (Signature)
 Chief Finance Officer

..... Social Insurance Institution

..... Office,
Hospital
Dispensary, etc.

STATEMENT OF ACCOUNTS

FOR THE MONTH OF 196....

- Part I - Abstract of Insurance Stamps Stock Record (if applicable)
- " II - Trial Balance as at end of month
 - " III - Certificate to be given by the Sub-accountant
 - " IV - Bank Reconciliation Statement to be prepared by the Internal Auditor
 - " V - Certificate to be given by the Internal Auditor
 - " VI - Certificate regarding posting to the Central Office accounts - to be given by the Central Office book-keeper.

I. Abstract of the Insurance Stamps Stock Record	
	Number of Stamps of each denomination
Number in stock at beginning of month	
Number received during month from Central Office	
Number received from any other source (state source)	
Total	
Number sold during month	
Balance in stock at end of month	
Total	
Value of stamps sold during month	
(Date) (Signature) Cashier	

II. No. of Account	(FOR USE AT CENTRAL OFFICE) Posting references)	Debit	Credit	
01 03 05 07 09 11 17 21 25 27 29 31 33 Any other Expenditure accounts 02-02 02-04 02-06 08				Details to be given in Schedule 01 " " " " " " 03 " " " " " " 05 " " " " " " 07 " " " " " " 09 " " " " " " 11 " " " " " " 17 " " " " " " 21 " " " " " " 25 " " " " " " 27 " " " " " " 29 " " " " " " 31 " " " " " " 33* " " " " " " A " " " " " " C2-02* " " " " " " 02-04* " " " " " " 02-06* " " " " " " 08

III. I certify

(1) that I have verified the balance of insurance stamps in stock at the end of the month, as shown in the Abstract at Part I above, by a physical count of the stamps in the safe at the close of business on the last day of the month; and

(2) that the Statements given in Parts I and II above are correct.

(Date) (Signature)
Sub-accountant

IV. Bank Reconciliation Statement

Balance at end of month as shown by Bank Statement

Add Cheques paid in but not yet credited by Bank

Charges, commissions, etc. debited by Bank but not yet recorded by Institution

Any other items (give details)
.....

Total

Less Cheques issued but not yet presented to Bank

Any other items (give details)
.....

Balance of Bank Current Account (51-03) as shown in Part II

V. I certify

(1) that I have checked the accounts of the Office*
..... Hospital for the
month of 196.. with the vouchers and other documents relating thereto
and, /subject to the observations contained in my report dated 196..
attached hereto/* that the accounts are correct;

(2) that the statement of balances given in Part II above and in the Schedules attached is correct; and

(3) that I have prepared the Bank Reconciliation Statement shown in Part IV above, which I am satisfied gives a true reconciliation of the Bank Statement dated 196.. as received from the Bank, with the balance of the Bank Current Account (51-03) as shown in Part II above.

(Date) (Signature)
Internal Auditor

VI; I certify that /by means of FN4 No./* I have incorporated the balances shown in Part II above (except those of the Cash Book, 51-01 and 51-03) in the books of the Central Office, as indicated in the reference column of Part II, and have made the necessary balancing entry in the Office*

Hospital
Dispensary

Current Account (No. 70- ... Folio ...)

(Date) (Signature)
Book-keeper, Central Office

* Delete as and where necessary.

..... Social Insurance Institution

..... Hospital
..... Dispensary
..... Pharmacy

STATEMENT OF CONSUMPTION OF PHARMACEUTICAL PRODUCTS

SHEET No. FOR THE MONTH OF196..

I. Consumption as determined from records of issues. (Use continuation sheets as n

Code Nos. of Items		Total issues for month under Code Nos of item											
Total issues for month													
(TO BE COMPLETED BY FINANCE DIVISION)	Average price per unit												
	Cost for the month												

II. (In respect of items in connection with which records of individual issues are not kept.) Consumption as determined by ascertaini

Code Nos. of Items		Totals for month under Code Nos. of items											
Opening stock													
Receipts during month													
Total													
Less closing stock ascer- tained by inspection													
Consumption during month													
(TO BE COMPLETED BY FINANCE DIVISION)	Average price per unit												
	Cost for the month												

(Certificates in Parts III and IV to be completed on last sheet of form FN18A for the n

III. The statements of amounts of pharmaceutical products consumed during the month of compiled under my direction and are, to the best of my knowledge and belief, corr

IV. The statements at I and II above and on the previous ... sheets have been t

ssary)

FOR
USE BY
FINANCE
DIVISION

Total for
Part I

FOR
USE BY
FINANCE
DIVISION

Total for
Part II

h)

(Date) (Signature) (Sub-accountant)

(Date) (Signature)
Internal Audit Department

..... Hospital
 Dispensary
 Pharmacy

MONTH OF 196.

V. (This Part to be completed by FINANCE DIVISION on the last sheet of form FN18A for the month)

Summary of cost of consumption of Pharmaceutical Products

	Forms FN18A Sheet No.	Part I	Part II
	1		
	2		
	3		
	4		
	5		
	6		
	etc.		
	Totals		
	Grand Total		

VI. The amounts consumed, as stated on the sheets of form FN18A listed above, have been evaluated at the average price ascertained for each item, and the total valuations for Parts I and II of each sheet have been brought forward to the summary statement shown at V above.

(Date) (Signature)
 Finance Division (Central Office)

..... Social Insurance Institution

..... Hospital
..... Dispensary
..... Pharmacy

STATEMENT OF CONSUMPTION OF MEDICAL APPLIANCES

SHEET No. FOR THE MONTH OF 196.

Consumption of Me

I. Consumption as determined from records of issues. (Use continuation sheets as necessary)

Code Nos. of items		Total issues for month											
Total issues for month													
(TO BE COMPLETED BY FINANCE DIVISION)	Average price per unit												
	Cost for the month												

II. (In respect of any items in connection with which records of individual issues are not kept.) Consumption as determined by ascertainment

Code Nos. of items		Totals for month under											
Opening Stock													
Receipts during month													
Total													
Less Closing stock ascertained by inspection													
Consumption during month													
(TO BE COMPLETED BY FINANCE DIVISION)	Average price per unit												
	Cost for the month												

(Certificates in Parts III and IV to be completed on last sheet of form FN18B for the month)

III. The statements of amounts of medical appliances consumed during the month of compiled under my direction and are, to the best of my knowledge and belief, correct

(Date)

IV. The statements at I and II above and on the previous sheets have been

(Date)

al Appliances

SHEET No.

r Code Nos. of items														FOR USE BY FINANCE DIVISION
														Total for Part I

amount remaining at end of month. (Use continuation sheets as necessary)

Code Nos. of Items														FOR USE BY FINANCE DIVISION
														Total for Part II

..... 196...., at I and II above and on the previous sheets have been

..... (Signature)
Sub-accountant

sted by checking a proportion of the entries, and are approved.

..... (Signature)
Internal Audit Department

..... Hospital
 Dispensary
 Pharmacy

MONTH OF 196.

V. (This Part to be completed by FINANCE DIVISION on the last sheet of form FN18B for the month)

Summary of cost of consumption of Medical Appliances

	Forms FN18B Sheet No.	Part I	Part II
	1 2 3 4 5 etc.		
	Totals		
	Grand Total		

VI. The amounts consumed, as stated on the sheets of forms FN18B listed above, have been evaluated at the average price ascertained for each item, and the total valuations for Parts I and II of each sheet have been brought forward to the summary statement shown at V above.

(Date) (Signature)
 Finance Division (Central Office)

..... Social Insurance Institution

..... Hospital
..... Dispensary
..... Pharmacy

STATEMENT OF CONSUMPTION OF X-RAY FILMS
AND OTHER MEDICAL SUPPLIES

FOR THE MONTH OF 196.

Consumption of X-ray films

I. Consumption as determined from records of issues. (Use continuation sheets as necessary)

Code Nos. of items		X-ray films	Other medical supplies - total issues for month under Code Nos.									
Total issues for month												
(TO BE COMPLETED BY FINANCE DIVISION)	Average price per unit											
	Cost for the month											

II. (In respect of items in connection with which records of individual issues are not kept) Consumption as determined (Use continuation sheets as necessary)

Code Nos. of items		X-ray films	Other medical supplies - totals for month under Code Nos. of									
Opening Stock												
Receipts during month												
Total												
Less												
Closing stock ascertained by inspection												
Consumption during month												
(TO BE COMPLETED BY FINANCE DIVISION)	Average price per unit											
	Cost for the month											

(Certificates in Parts III and IV to be completed on last sheet of form FN18C for the month)

III. The statements of amounts of X-ray films and other medical supplies consumed during the month have been compiled under my direction and are, to the best of my knowledge and belief,

IV. The statements at I and II above and on the previous sheets have been tested

and other medical supplies

SHEET No.

of items - in units of quantity, weight, volume, etc. (as appropriate)												FOR USE BY FINANCE DIVISION Total for other medical supplies (Part I)

ascertaining amount remaining at end of month.
 continuation sheets as necessary)

Items - in units of quantity, weight, volume, etc. (as appropriate)												FOR USE BY FINANCE DIVISION Total for other medical supplies (Part II)

month of 196... at I and II above and on the previous sheets
 correct.

(Signature)
 Sub-accountant

by checking a proportion of the entries, and are approved.

(Signature)
 Internal Audit Department

V. (This Part to be completed by FINANCE DIVISION on the last sheet of form FN18C for the month)

Forms FN18C Sheet No.	X-ray Films		Other Medical Supplies	
	Part I	Part II	Part I	Part II
1 2 3 4 5 etc.				
Totals				
Grand Totals				

(Date)..... (Signature)
Finance Division (Central Office)

STOCK RECORD CARD

Description Code No.

Maximum stock authorised

Minimum stock prescribed

Date	Receipts		Issues		Balance Remaining
	No. of Entry Note	Quantity, Weight, Volume, etc.	No. of Delivery Note, Requisition, or Prescription	Quantity, Weight, Volume, etc.	

..... Social Insurance Institution

ANNUAL REVIEW OF SUPPLIES FOR PURPOSES OF FINANCIAL ESTIMATES FOR 196..

(Use continuation sheets as necessary) Sheet No.

Code No.	Description	Quantity, weight, volume, etc. (as appropriate)					FOR USE IN FINANCE DIVISION		
		Total require- ments for 196.	In stock on	As submitted to Purchasing Commission for approval	As approved by Purchasing Commission	As approved by Director- General for inclu- sion in Estimates	Estimated price per unit	Total cost of item as included in Estimates submitted to the Board	Sub-head in which included

INVENTORY BOOK (for Non-consumable Stores)

Page

[illegible]

..... Social Insurance Institution

..... Office

REQUISITION to be used only for consumable supplies
other than pharmaceutical and medical

I. The Storekeeper

Please issue the under-mentioned supplies.

(Date) (Signature)

Quantity	Description	Code No.	To whom supplies to be issued

II. Note. When supplies are received, this part of the form must be signed as acknowledgment of receipt and the form returned to the Storekeeper.

Received the supplies detailed above.

(Date) (Signature)

TOTAL COST OF CONSUMPTION OF PHARMACEUTICAL PRODUCTS,
MEDICAL APPLIANCES, X-RAY FILMS AND OTHER MEDICAL SUPPLIES
DURING THE MONTH OF 196.

Form FN23.

Insurance Institution

RECORD (left and right pages of Register)

-UES		BALANCE IN HAND
To whom issued	Number of stamps of each denomination	Number of stamps of each denomination

• • • • •

[illegible]

RECORD (left and right

[illegible]

PART V

Section 3 - Draft Rulings of Cash Book and Ledger Accounts

Contents

1. Cash Book
2. Expenditure Ledger
3. Cash Benefits Ledger
4. Sundry Debtors (loose-leaf) Ledger
5. Employers in Arrears (loose-leaf) Ledger
6. Sundry Creditors (loose-leaf) Ledger
7. Buildings, Equipment and Investments Ledger
8. General Ledger

L E D G E R 196.

Account) Amount of Estimate as approved by Board

[illegible]

1. *Chlorophyll a* and *Chlorophyll b* were determined by the method of Arar and Collins (1971) using a Shimadzu 1010 spectrophotometer.

(Sickness Benefit Maternity Benefit
(Injury Benefit ... Total Dis. Pension
(Partial Dis. Pension Survivors'
(Pensions Funeral Grant Total

[illegible]

SUNDRY DEBTORS (loose-leaf) LEDGER

No. of Account - 53-	(Printed serial number)
Name of Debtor .....	.....
Nature of Business, or other description .....	.....
Address .....	.....

[illegible]

EMPLOYERS IN ARREARS (loose-leaf) LEDGER

No. of Account - 55-

(Printed serial number)

Name of Employer Date on which case reported to Legal Division for legal action*

Registered No. of Employer Details of undertaking given regarding payment of arrears*

No. of Form FN16 reporting arrears

Date of Form FNI6 reporting arrears

* Delete whichever is inapplicable.

[illegible]

SUNDRY CREDITORS (loose-leaf) LEDGER

No. of Account - 54-

(Printed serial number)
.....

Name of Creditor

Nature of Business, or other description

Address

Debits						Credits				
No. of Entry	Date	No. of FNL	No. of FN4 (if appli- cable)	Details	Amount	No. of Entry	FN4		Details	Amount
							Date	No.		

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L E D G E R

[illegible]

