Finance Policy and Procedures Manual

2nd Edition (Revised April 2021)

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TABLES

FIGURES

ACRONYMS / ABBREVIATIONS

AC	Accountant
BoQ	Bill of Quantities
BoT	Board of Trustees
CEO	Chief Executive Officer
CFA	Community Forest Association
DCS	Director Corporate Services
EFT	Electronic Funds Transfer
FAS	Fund Accountability Statement
FPPM	Finance Policy and Procedures Manual
GAAP	Generally Accepted Accounting Principles
GL	General Ledger
GoK	Government of Kenya
GRN	Goods Received Note
HELB	Higher Education Loans Board
HOD	Head of Department
HR	Human Resources
ID	National Identification Number
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
KENAO	Kenya National Audit Office
KRA	Kenya Revenue Authority
LPO	Local Purchase Order
MFA	Manager, Finance and Accounts
MHRA	Manager, Human Resources and Administration
MoU	Memorandum of Understanding
MSCM	Manager, Supply Chain Management
MTEF	Medium Term Expenditure Framework
MoEF	Ministry of Environment & Forestry
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
PCRR	Petty Cash Replenishment Request
PAC	Principal Accountant

PIN	Personal Identification Number
PR	Purchase Requisition
PS	Principal Secretary
PV	Payment Voucher
SAC	Senior Accountant
SHRO	Senior Human Resources Officer
ToR	Terms of Reference
WIP	Work in Progress
NETF	National Environment Trust Fund

1 INTRODUCTION

1.1 Background

The National Environment Trust Fund (hereafter abbreviated as NETFUND is an institution established under the EMCA Act (1999), Revised (2015). The mandate of the Fund as stipulated in the Act is to facilitate research intended to further the requirements of environmental management; Capacity Building; Environmental Awards; Publications; Scholarships and Grants. The Fund manages funds received from the Government of Kenya (GoK), donations, grants and bequests from sources as outlined in the Act.

The Fund operates under the following legal and regulatory framework:

- Trustees Act (Revised 2012)
- The Trust Deed
- The EMCA Act 1999 (Revised 2015)
- Government Financial Regulations and Procedures
- The State Corporations Act (Cap. 446)
- The Public Financial Management Act 2012 and Amendment 2014
- Public Audit Act 2003
- Public Procurement and Asset Disposal Act 2015
- Public Investment Management Guidelines
- Public Officer Ethics Act 2003
- The Exchequer and Audit Act
- Relevant Government circulars and executive orders
- Any other relevant legislation which may be enacted from time to time.

1.2 Objectives of the Fund

The Fund's operation is guided by a five-year strategic plan developed through consultative process with the key stakeholders. The current strategic plan covers the period 2018-2022. As per the strategic plan the Fund has four strategic objectives as follows:

- To engage and nurture existing and new development partners to secure increased funding

- To facilitate research and publications on environment and Climate Change.
- Build capacity of key stakeholders on climate change, environmental pollution and ecosystem rehabilitation.
- Strengthen internal capacity for efficient utilization of resources and effective service delivery.

1.3 Purpose of the Finance Policy and Procedures Manual (FPPM)

The Manual will ultimately enable the Fund to effectively discharge its obligations. Particularly, it shall provide comprehensive guidance in relation to financial management and accounting policies, procedures, transactions and reports. It records and presents a guide of financial management policies and procedures adopted in the running of the Fund.

The Manual shall be used as a reference resource by the following:

- The staff of the Fund in executing their financial management operations in the organisations
- Management and Board of Trustees in ensuring compliance with the Fund's financial policies and procedures
- Auditors, consultants, development partners or their representatives and other relevant parties.
- Any stakeholder who may want to make reference to the document for various reasons

1.4 Integrity, transparency and accountability

The Manual will serve as the benchmark of achieving integrity, transparency and accountability in the financial operations of the Fund. Any violation of the provisions of the Manual will be deemed to be a violation of integrity.

1.5 Scope of the Manual

The Manual documents the financial management framework, accounting policies and regulations, accounting and reporting procedures of the Fund. The Manual also gives an overview of the procurement procedures and auditing arrangements.

1.6 Revisions and amendments to the Manual

The Manual is a living document and may be amended from time to time in order to take into account the changing operating environment. After finalisation of the Manual, the CEO shall be responsible for additional amendments and/or updates to the Manual and will ensure that amendments to the Manual are properly authorised and controlled. However, all users may initiate improvements and changes. An amendment to the Manual may involve a change or deletion to existing procedures and/or addition of new or previously omitted procedures. The amendments to the Manual shall be requested using the form in *Appendix 1: Finance Policy and Procedures Manual Amendment Form*.

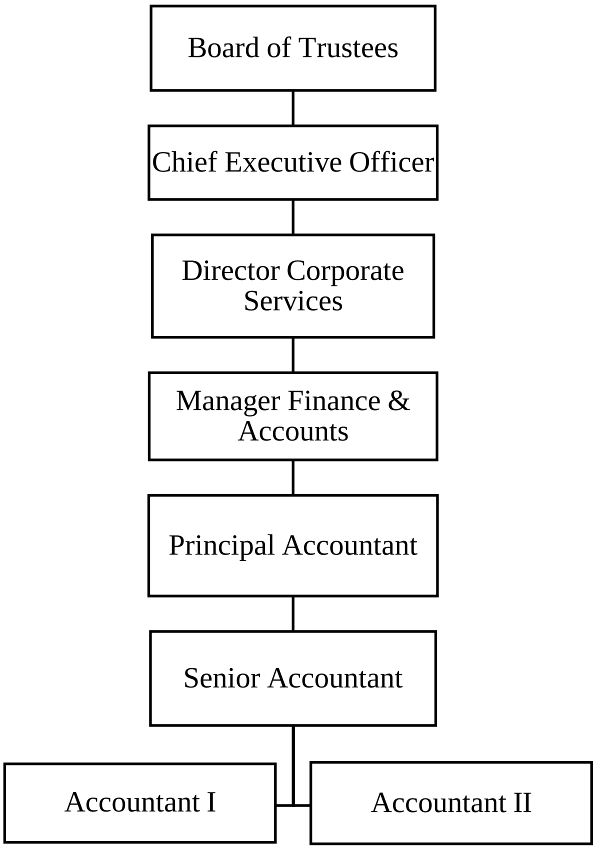
A revision to the Manual shall be approved by the Board of Trustees. The Manual shall be reviewed after every three years.

2 OVERVIEW OF THE FINANCE FRAMEWORK

2.1 Organogram

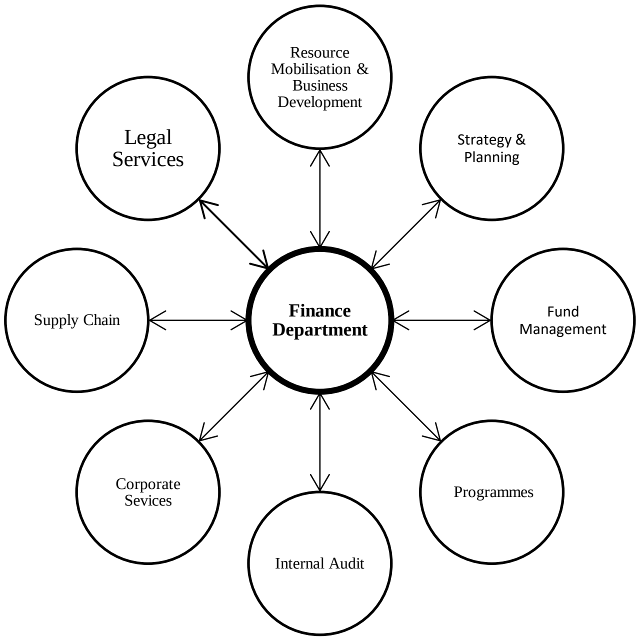
The organogram of the Finance function is outlined below:

Figure 1: Finance function organogram



2.2 Linkages with other organisation's functions

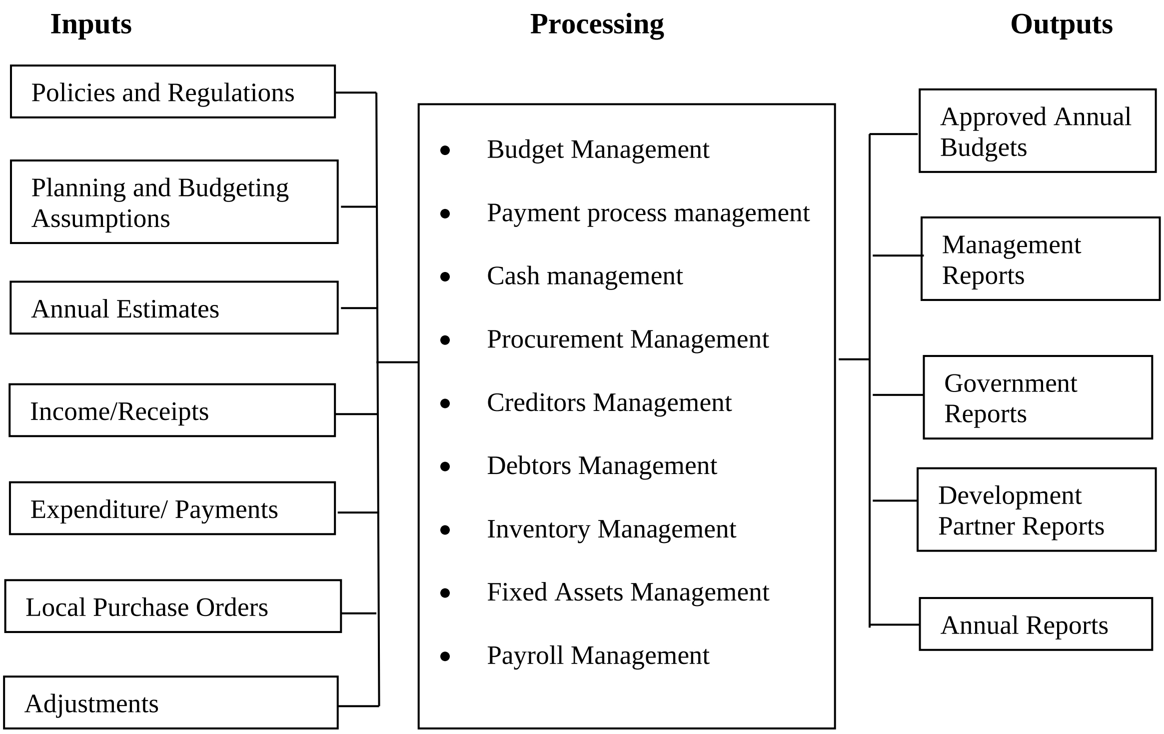
Figure 2: Linkages with other organisation's functions



2.3 Financial management overview

The financial management framework can be summarised as illustrated below:

Figure 3: Finance processes overview



The specific processes in this overview are briefly outlined below:

Table 1: Specific finance processes' inputs

Process	Inputs
Planning and budgeting	• Budget Policy Statement • GoK regulations and guidelines / Treasury circular • Development partner requirements • Management forecasts • BoT resolutions
Project approval	• Board resolution for all projects • Approval by management with delegated authority of the Board of Trustees • Donor approvals
Procurement	• User requisitions • Procurement plans • Procurement laws and regulations
Payment authorisation	• Payment requests • Supporting documentations
Accounting	• GoK regulations • Generally Accepted Accounting Principles (GAAP) • Development partner requirements • The Fund's policies and procedures
Reporting	• GoK regulations • Development partner requirements • The Fund's requirements
Audit	• GoK regulations • Development partner requirements • International Standards of Auditing (ISA) • Management requests • Internal audit work plan

2.4 Budgeting

The budgeting for the Fund shall be carried out in accordance with the relevant legal and regulatory provisions as outlined previously. In accordance with Government Financial Regulations and Procedures on budgets of public institutions:

- The Fund shall prepare annually a three year forward budget for approval by the parent Ministry and the Treasury. The forward budget which should cover both the capital (development) and operating (recurrent) budgets should form the basis of their subsequent annual budgets

- Any proposed financing from the Exchequer must be contained within the parent Ministry's budget ceiling and the agreements on the proposed financing from development partners must be signed with the National Treasury
- The budget proposals must be approved by the Board of Trustees
- The Fund shall submit the budget proposal for the succeeding year to the Ministry and the National Treasury by 31st January or as directed by the National Treasury each year for consideration and approval

2.5 Sources of revenue

The Fund may receive funding through a number of sources which may include, but not limited to, funds:

i) Appropriated by Parliament from the national budget for the purposes of the Fund
ii) Received by the Fund from donations, grants, and bequests from other sources
iii) The proceeds of public contributions and donations
iv) Payable into the Fund under any Act

The sources of revenue are broadly categorised as:

- Grants from the government
- Grants from the development partners
- Public Contributions & donations (Internally generated income)

2.6 Accounting

The Fund shall keep proper books and records of accounts as required by the Public Financial Management Act, the State Corporations Act, the Exchequer and Audit Act, the Public Audit Act and the Government Financial Regulations. The institutions' books of accounts, records, audits, expenditures, disposition of assets and general accountability will be managed as provided for in legislation.

The accounting system of the Fund shall be based on International Public Sector Accounting Standards (IPSAS) accrual basis. The recording and processing of transactions will be based on the policies outlined in *Subsection 3.3: Significant accounting policies*, and the detailed procedures documented starting from *Section 5: Cash and Bank Management*. The recommended chart of accounts and a system for coding transactions is presented in *Subsection 11.4: Structure of accounts and analysis codes*. This will facilitate orderly recording and analysis of accounting data.

2.7 Financial reporting

The accounting system used by the Fund will be sufficiently robust to meet reporting requirements for the effective running of the Fund in accordance with good corporate governance practices. In addition, the system should meet Government and development partner reporting requirements. The reporting requirements and procedures are outlined in *Section 11: Reporting Procedures*.

2.8 Financial audits

The accounts of the Fund shall be audited and reported on annually by the Auditor-General in accordance with the requirements of the Constitution of Kenya, the Public Finance Management Act and the Public Audit Act 2015.

In addition, the Fund shall have other specialised audits as required by the development partners. The appointment of the auditor will be done in consultation with the development partners.

The audit reports will be shared with the Government and development partners and relevant stakeholders.

3 FINANCIAL POLICIES

3.1 Books of accounts and financial statements

The Fund shall keep proper books of accounts, recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Fund, in accordance with the Public Finance Management Act, Section 14 (1) of the State Corporations Act and Government Financial Regulations Chapter 21 Sec 3.1.

3.2 Accounting period

In accordance with Government Financial Regulations and Procedures Chapter 21 Section 7, the financial year of the Fund shall be the period of 12 months ending 30th June each year.

3.3 Significant accounting policies

3.3.1 Basis of preparation

The financial statements shall be prepared in accordance with International Public Sector Accounting Standards (IPSAS). In addition, the Fund will observe accounting practices acceptable to the Government of Kenya and where appropriate, specific accounting policies and reporting requirements as set out in the financing agreements and memoranda of understanding (MoUs) between the Board of Trustees and the development partners.

The financial statements shall be prepared under the historical cost convention.

3.3.2 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

i) Government grants are recognised as income when there is reasonable assurance that the grants will be received and the entity is in compliance with the conditions attached to the grants
ii) Grants from donors are recognised as income when there is reasonable assurance that the grants will be received. The grants are recognised as income on a systematic and rational basis over the period necessary to match them with the related costs

iii) Grants related to depreciable assets are recognised as income over the periods and in the proportions in which depreciation on those assets is charged
iv) Other income comprises of funds other than the grants from the development partners and the Government of Kenya. Other income is recognised when there is reasonable assurance that it will be received

Funds received for specific purposes (conditional grants) are treated as unexpended grants and credited to the surplus or deficit when the activities for which they were provided for have been undertaken. Specific grant pledges that have not been received but for which expenditure has been incurred, as well as the excess of expenditure over receipts for specific grants are recognised as revenue and included in the financial statements as grants receivable from donors.

3.3.3 Expenditure recognition

Expenditures are recognised on the accruals basis.

3.3.4 Consistency

Consistent accounting methods will be applied and changes made will be reported and the effect on reported results disclosed in accordance with Generally Accepted Accounting Principles (GAAP).

3.3.5 Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of reporting period. Transactions during the year are translated at the rates prevailing on the transaction dates. Gains or losses on translation are dealt with in the surplus or deficit.

3.3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment donated to the Fund or purchased using specified donor funds are recognised as deferred income from capital grants. Donated assets are recorded at a reasonable estimate of their fair value to the Fund at the date of receipt as determined by the Board of Trustees.

3.3.7 Depreciation

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life at the following rates:

Table 2: Depreciation rate for various assets

Item	Depreciation % per year
Furniture	12.5
Motor vehicles	25
Computer equipment	25
Equipment	12.5
Fixtures and fittings	12.5
Intangible assets	12.5

Gains and losses on disposal of items of equipment are determined by comparing the proceeds to their carrying amounts and are included in the statement of financial performance.

3.3.8 Intangible assets

All costs attributable to the purchase of computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years. It is charged to the surplus or deficit under the expenditure line, amortisation of intangible assets.

3.3.9 Impairment of tangible and intangible assets

At end of each reporting period, the Fund reviews the carrying amounts of its financial assets, tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

3.3.10 Inventories

Inventories of consumable items are stated at the lower of cost and net realisable value. Cost comprises the purchase price and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of selling the item.

A stock take shall be undertaken at the end of each financial year.

3.3.11 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

The Fund shall make a full provision for project receivables that are more than 365 days old from the disbursement date. The management shall assess the risk for each project in determining the provision.

Bad debts and doubtful debts shall be written off upon recommendation of the management and approval by the Board of Trustees.

3.3.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, at bank and short-term investments with maturity of up to three months' net of bank overdrafts.

3.3.13 Funds disbursed to projects

Funds disbursed to projects will be recorded as advances until they are fully accounted for.

4 BUDGETING PROCEDURES

The Fund has a role in the wider budget process of resource allocation to key priority areas and activities carried out by various stakeholders. The budgeting procedures aims at ensuring that all programmes, projects and activities being undertaken by the Fund are properly budgeted for and the funds appropriated are applied as planned for.

4.1 Annual estimates

The Fund shall prepare not later than 31st January every year and submit to the parent Ministry and to the National Treasury for approval, estimates of the Fund's revenue and expenditure for the following financial year, in accordance with the State Corporations Act Cap 446 Sec 11 (1) and Government Financial Regulations and Procedures Chapter 21 Sec (1). The estimates shall be accompanied by proposals for funding all projects to be undertaken by the Fund, or the implementation of which will continue during the financial year to which those estimates relate. No annual estimates and proposals for funding projects shall be implemented until they have been approved by the Cabinet Secretary with the concurrence of the National Treasury.

4.2 Linkage between MTEF and the Fund's strategic plans and budgets

The Fund's annual and Medium-Term Expenditure Framework (MTEF) budgets shall be prepared in line with the Fund's strategic plan.

4.3 Recurrent expenditure estimates

The recurrent expenditure estimates will be prepared by the various heads of departments and will be forwarded to the Finance department for consolidation. The estimates will then be reviewed by the DCS and the CEO. The DCS and the CEO will recommend any necessary changes before the estimates are presented to the Board of Trustees for approval. The CEO will then forward the approved estimates to the Ministry of Environment & Forestry and the National Treasury & Planning.

Monitoring and evaluation of the annual budget shall be done to further rationalise the available resources for different activities. It also acts as a check to over-expenditures and under-expenditures in the budgeting process.

Table 3: Recurrent expenditure preparation

No.	Procedure	Responsibility
1	Staff within the various departments contribute towards the generation of annual expenditure estimates based on their annual work plans	Heads of Departments
2	The department / cost centres heads submit their expenditure estimates to the DCS	Heads of Departments
3	Consolidate expenditure estimates from various departments	MFA
4	Review of the consolidated budget by management and CEO	DCS
5	Forward the consolidated expenditure estimate to the Board of Trustees for approval	CEO
6	The approved annual budget is then forwarded to the PS MoE&F & National Treasury for approval	CEO

4.4 Development expenditure estimates

In preparation of the development expenditure estimates, the Fund shall be guided by the 5-year strategic plan, the financing agreements and MOUs with the development partners, investment plans and the 3-year MTEF budget. The process shall start with the user departments' development of the annual work plans before the finance consolidates the departmental submissions for management review and BoT approval. The detailed steps of preparation of development estimates expenditures are presented in the table below;

Table 4: Development expenditure preparation

No.	Procedure	Responsibility
1	The activities planned for the year are identified from the objectives outlined in the Strategic Plan, signed financing agreements/MOUs and Investment plan	Heads of Departments
2	Each head of department in consultation with Finance department develops a departmental annual work plan and draft development expenditure budget	Heads of Departments
3	Consolidation of the development budget estimates and production of draft development budget	DCS
4	Circulation and review of the draft budget by management team	DCS

No.	Procedure	Responsibility
5	Presentation of the draft budget to the BoT for review and approval	CEO
6	Forwarding of the draft budget to Ministry and National Treasury for review and approval	CEO
7	Realignment of the budget to the printed estimates and discussion by management	DCS
8	Approval of the final budget for implementation	CEO/BoT

5 CASH AND BANK MANAGEMENT

5.1 Purpose

The purpose of the cash management system is to ensure that:

- Availability of cash when required
- All cash received is promptly and accurately accounted for and banked intact
- All payments are properly verified and approved before payment is made
- All vouchers and supporting documentation are properly stamped "PAID" immediately after payment is done
- There is adequate segregation of duties
- All cash transactions are properly captured by the General Ledger system
- Bank and cash reconciliations are done on a timely basis
- There is adequate security for cash
- There is accountability and transparency in the management of cash

The DCS shall forecast cash requirements and with the approval of the CEO and the Board of Trustees invest the surplus.

5.2 Receipt and recording of funds

Funds are received in the following ways:

- Direct transfers into the Fund's accounts
- Cheque / cash receipts

In the case of direct bank transfers, the Fund will receive a deposit advice from the bank to confirm receipt of the funds. The bank advice will be used to raise a receipt. When cash / cheque is received, an official receipt will be raised in duplicate immediately.

Table 5: Receipt and recording of funds

No.	Procedure	Responsibility
1	Records cheques or banks deposit advice, ensure it has been registered in the incoming mail register, and forward to MFA	Accountant

No.	Procedure	Responsibility
2	Receive cash/cheque or bank deposit advice and raise an official receipt in duplicate. Send one copy to acknowledge receipt and leave triplicate as the book copy	Accountant
3	Bank cheques and cash received immediately, and not later than the end of the business day following the date of receipt	Accountant
4	Code the official receipt using the chart of accounts and analysis codes	Accountant
5	Review coding and approve for entry to cash book	Accountant
6	Update the cashbook	Accountant
7	File official receipts and bank pay-in-slips and vouchers in serial number order	Accountant

5.3 Authorisation of payment for goods, works and services

Finance & accounts department will prepare payments upon receipt of duly approved purchase orders, invoices and other supporting documents. All cheques and electronic payments will be supported by a payment voucher that will be raised electronically by the Accountant and approved by the PAC, MFA, DCS and the CEO accordingly, depending on the threshold.

The cheques and electronic payments will be entered into a register before they are released. The register will show the name of the payee, the amount, the cheque number and the date of collection (or dispatch by registered mail and courier). All cancelled cheques will be stamped "VOID" and recorded in the cheque register with the word "CANCELLED" in the payee space.

5.3.1 Authorisation of payments

The CEO being the accounting officer shall authorise all payments. This will be done by signing LPOs, financing agreements, memo requests and any other originating payment documents.

5.3.2 Approval of payment both physical & electronic

Approval of payment will be done by any two of DCS and the CEO.

5.3.3 Payment for goods and services

The Fund will strive to make payment to suppliers electronically. Payment approval procedures will also apply but payments will be done through electronic funds transfer (EFT). The eventual transfer of funds will be done by the authorised bank signatories.

All payment to suppliers should be done through cheques or bank transfers regardless of the amount paid. The approvals and supporting documents must be attached and reviewed before authorised signatories sign cheques or authorise electronic funds transfer.

5.4 Bank and banking arrangements

5.4.1 Opening of bank accounts

The DCS on behalf of the Fund and in consultation with the CEO shall make all banking arrangements with reputable banks, and only as approved by the Board of Trustees.

5.4.2 Bank signatories

The bank signatories will fall under two categories as follows:

Table 6: Bank signatories' categorisation

Category A	Category B
• CEO • DCS	• Heads of Directorates • Head of departments

All payments must have two signatories with at least one signatory from Category A being mandatory.

Cheques shall only be ordered by any of the two signatories per mandate. The MFA will make adequate arrangements for their custody. Bank reconciliations will be prepared not later than 5 working days after the previous end of month by the PAC.

The MFA will ensure the reconciliation of all bank account balances to the cash books is done. Each bank reconciliation will be prepared by a designated AC and reviewed by the MFA (evidence of the date of preparation and review must be indicated on each reconciliation). The DCS will randomly review the bank reconciliations from time to time.

5.4.3 Closure of bank accounts

The management will review the bank accounts at regular intervals to determine their continued usefulness to the Fund. The bank accounts will be closed when the following conditions are met:

- The use for which the bank account was opened has come to an end
- The source of funds going into that account has ceased
- The Fund has decided to transfer the banking operations to another account in the same bank or to another bank
- An account has been determined to be dormant

The management will ensure the above conditions have been met and seek approval from the Board of Trustees

5.5 Insurance

All cash in transit and cash held in the Fund's offices shall be insured against any form of loss. The level of insurance shall depend on the security measures put in place to minimise theft or any other form of loss. Fidelity guarantee must be taken in respect of pecuniary loss as a result of infidelity of employees occupying declared positions in finance.

5.6 Cash flow forecast and investment of excess funds

Cash flow projections will be prepared and the cash position reviewed in making cash management decisions. Surplus funds will be invested, according to the approval by the Board of Trustees and/or funding agreement requirements, while ensuring the Fund is liquid enough to make payments for its obligations in a timely manner. The DCS will be responsible for the preparation of cash projections (weekly, monthly, and quarterly).

Any envisaged excess funds/cash will be invested in short term (maximum 90 days) liquid and secure securities e.g. Government securities like Treasury Bills or similar investments. The Fund's bankers will act as agents and/or advisors once investment decisions are taken by the Fund.

The returns on the surplus funds will be declared and used as approved by the development partners and/or the Board of Trustees.

5.7 Cash / payments returns

The PAC shall prepare a weekly cash / payment return for the CEO and the DCS.

Table 7: Cheque / EFT payment

No.	Procedure	Responsibility
1	Receive and review payment request (invoice, fee notes), and relevant supporting documents (Goods Received Note, GRN), Inspection and acceptance certificate, LPO, delivery note, payment certificates, contracts, approved memos, approved requisitions and other documents) to ensure fit for payment	PAC
2	Prepare payment voucher (PV) electronically and forward the supporting documents for approval	Accountant
3	Review PV against supporting documents to ensure it is accurately captured in the system. Authorise the payments	PAC / MFA / CEO
4	Prepare cheques / upload EFT file and submit to the signatories for approval	Accountant
5	Sign cheques and forward for recording and dispatch	MFA / DCS / CEO
6	Record details of signed cheques in the Cheque Dispatch Register	Accountant
7	If the cheque is cancelled, ensure that it is stamped “VOID” and recorded in the register with word “CANCELLED” on the payee field	Accountant
8	Ensure persons collecting cheques enter their name, signature and identification numbers on the register. The persons collecting the cheques must be officially introduced by their companies. Use registered mail or courier service for deliveries outside Nairobi	Accountant
9	For EFT payments, generate payment advice as evidence of funds transfer	Accountant
10	Stamp the PV, invoices and Supporting documents “PAID”. Post the payment in the Cash Book	Accountant

No.	Procedure	Responsibility
11	File PVs and documents safely in PV order number per expenditure category	Accountant

Table 8: Bank reconciliation

No.	Procedure	Responsibility
1	Receive / download monthly bank Statements from the bank	PAC
2	Agree the balance to the cash book balance	SAC
3	Identify the reconciling items	SAC
4	Prepare and process adjusting journals for the identified reconciling items.	Accountant
5	Review the reconciliation and sign	MFA
6	File copy of the reconciliation/adjusting journals	SAC

Table 9: Review of cash position and preparation of cash forecast

No.	Procedure	Responsibility
1	With assistance from Finance, allocate planned expenditure to the approximate month of payment. In doing this consider timing of activity and payment policy	Heads of Departments
2	Generate cash requirements forecast analysed by activity and expense type	PAC
3	Prepare projected cash inflow analysed by source of funds and submit to DCS	MFA
4	Obtain approval of cash flow forecast from the DCS and CEO	MFA
5	Seek authority to invest surplus funds in accordance to BoT approval	DCS
6	Approve investment of surplus funds if any	CEO and BoT
7	File copy of the forecast	MFA

6 PETTY CASH CONTROL PROCEDURES

6.1 Purpose

The purpose of the petty cash system is to ensure:

- The maintenance of sufficient amount of float to meet minor cash requirements
- Safe custody of petty cash funds
- Adequate controls over a petty cash held and petty cash payments made
- Prompt and accurate processing, issuance, recording and accounting for petty cash

6.2 Petty cash policy

The Fund will maintain a petty cash float to meet minor office expenses. Any payments in excess of KES20,000/- will be made by cheque. The cashier will maintain a float of KES100,000/-.

Petty cash will not be used for workshops, travel, per diems, allowances, fuel or salary advances. Travel allowance and workshop imprest procedures are provided in *Section 7: Travel and Activity Imprests*.

Petty cash shall be securely locked up in a safe. The accountant should ensure adequate security measures are in place while transporting petty cash from the bank and when accessing the safe to make payments.

Ad-hoc petty cash counts shall be conducted by a relevant official designated by the CEO / DCS on a regular basis but at least once a month to ensure petty cash is safe, used as intended and accounted for correctly. The count sheet shall be counter signed by both the cashier and the person conducting the count and dated. Any discrepancies noted shall be reported immediately to the DCS. The CEO shall also be informed.

6.3 Request and payment of petty cash

Requests for petty cash will be made using a petty cash request form. Employees requiring petty cash will complete the form and obtain recommendation from the respective head of department. Heads of departments requiring petty cash will complete the form and obtain approval from the MFA. Once approved by the PAC (or officers above in the hierarchy), the petty cash request form will be presented to the accountant for payment. The recipient of petty cash will sign the petty cash request form on receipt of the funds. The Accountant will retain the petty cash request form in the petty cash box until the funds are accounted for with supporting documents. (See *Appendix 2: Petty Cash Request Form*.)

Table 10: Request and payment of petty cash

No.	Procedure	Responsibility
1	Fill in a petty cash request form for the required amount of petty cash and forward to the head of department for recommendation	Petty cash applicant
2	Review petty cash request form and ensure that: • It is reasonable and/or adequately supported by valid documentation • The purpose of the request (the activity, expenditure type and details) is clearly stated • Activity is within the approved work plan and budget approved. Approve petty cash request form and forward to the Accountant	MFA / PAC
3	Receive cash from the Finance Assistant and sign for receipt	Petty cash applicant
4	Hold petty cash request form in petty cash box until funds are accounted for	Accountant

6.4 Accounting for petty cash advances

Petty cash advances will be accounted for immediately after incurring expenditure. This should take place on the same day the petty cash advance is taken. The petty cash holder will summarise the expenses, attach all the supporting documents and submit them to the Accountant.

Any difference between the advance and the expenditure will be reflected on the petty cash request form and surrendered to the Accountant. If more than the approved advance is spent, the person who authorised the expenditure will be required to approve the additional payment to the petty cash holder. Un-surrendered petty cash should be recovered from the staff salary in the same month it was paid out.

Table 11: Accounting for petty cash

No.	Procedure	Responsibility
1	Support expenditure incurred with original receipts and sign each receipt at the back. Return the documents together with all unused cash to the accountant immediately on return to office	Petty cash holder
2	Attach all the original receipts to the petty cash application form and ensure that relevant expenditure details (activity, expense type and source of funds) are indicated. Indicate expenditure amount on the petty cash application form and calculate difference between advance and expenditure	Accountant
3	Verify petty cash expenditure	PAC
4	Where there is a balance of unused petty cash, receive it and sign the petty cash application form. Where the holder spends more than advanced, pay balance after the person who authorised the advance approves the extra spending. Ensure the recipient signs the petty cash application form for the additional payment	Accountant
5	Record petty cash expenditure in the petty cash book	Accountant
6	File the petty cash application forms sequentially in a box file	Accountant

6.5 Petty cash replenishment

The petty cash float will be replenished with the amount spent every time the balance falls below KES35,000/- of the float. The DCS will approve any revision to this amount. A properly analysed petty cash replenishment request form / cash certificate will be completed to account for the float. This will be adequately supported by petty cash request forms and expenditure receipts.

A payment voucher will be raised for the replenishment, reviewed by the PAC and approved by MFA. The petty cash replenishment cheque should be reconciled to the petty cash expenditure. Any discrepancies noted should be investigated immediately and corrective action taken.

Table 12: Petty cash replenishment

No.	Procedure	Responsibility
1	Prepare an expenditure report, the petty cash replenishment request (PCRR) / cash certificate detailing total expenditure each time the balance reaches replenishment level (KES35,000/- float)	Accountant
2	Prepare a payment voucher for replenishment of petty cash. Attach the PCRR and supporting expenditure documents, and forward to the PAC for review	Accountant
3	Sign the cash certificate	MFA
4	Raise cheque for replenishment and forward to cheque signatories	Accountant
5	Sign petty cash replenishment cheque	CEO / DCS / MFA
6	Replenish the float	Accountant
7	Update the General Ledger with petty cash expenditure	PAC
8	Update the cash book with the float replenishment payment	Accountant

6.6 Cash reconciliation procedures

Cash reconciliation will be prepared on a weekly basis by the Accountant and supervised by the PAC who will ensure that it agrees to the weekly balances. The MFA shall check the reconciliation at least once a month. The reconciliation reports will be submitted to the DCS on a monthly basis.

Table 13: Cash reconciliation

No.	Procedure	Responsibility
1	Count the cash at close of business	Accountant
2	Agree to petty cash book	Accountant
3	Identify all the reconciling items and pass adjustments	PAC
4	Review the reconciliation and sign off	PAC
5	Process the account with any adjustments and file the reconciliation together with cash count results	PAC

7 TRAVEL AND ACTIVITY IMPRESTS

7.1 Purpose

The purpose of the imprest system is to ensure that:

- Imprest is issued for approved activities and expenditure types
- Proper approval systems are adhered to in making imprests payments
- Reasonable amounts are paid out as imprests
- Imprest is promptly issued and fully accounted for with appropriate supporting documents
- Travel and other activities requiring imprests are adequately planned for in advance

7.2 Policy

Imprest will be issued to officers for specific purposes and will be accounted for by submission of cash receipts and/or cash. Retirement of imprest must be made within 48 hours after the purpose for which the imprest was applied for has been fulfilled. If this is not done the whole amount so taken will be debited to the Officer's personal account and recovered from his salary without notice. No further advances will be made until previous ones are fully accounted for

All imprests shall be paid on the basis of an approved memo or requisition by the CEO. The memo or requisition will detail the purpose, source of funds, the budget line and the amount of the imprest.

7.3 Travel imprest

The Fund will pay for travel and reasonable living expenses for employees on official business in accordance with guidelines and rates set out in the Terms and Conditions of Service and relevant government circulars and policies. These details will be elaborated in the human resource policy, but in summary the expenses will be claimed as detailed in the sections that follow.

7.4 In-country out of station allowance

Officers travelling on duty within Kenya and away from their duty station will be paid a per diem / daily subsistence allowance (a flat accommodation allowance per night) at rates guided by the Fund's HR policy and Government circulars to be issued from time to time. Officers travelling on duty but not spending a night away from their duty station will be eligible for lunch and dinner allowance at rates also to be guided by government circulars issued from time to time.

Fuel and other incidental vehicle running costs will be based on the official expenditure receipts. The CEO will approve all in-country out of station subsistence allowances.

7.5 Out-of-country subsistence allowance

Out-of-country allowance will be paid as per agreed rates guided by the GOK regulation / circulars issued from time to time. All out-of-country travel allowances will be approved by the CEO. Application for travel and activity imprests

The request for travel and activities imprest shall be filled by the employees and approved by the respective Head of Department. All out-of-country activities must also be approved by the CEO. The approved Imprest Application Form shall be submitted to the Finance department at least one week (5 working days) before the date on which funds are required. Once an imprest is issued, it will immediately be posted to an interim staff imprest account of the person taking the imprest. (See *Appendix 3: Imprest Application Form*.)

The table below summarises imprest application procedures.

Table 14: Travel and activity imprest application

No.	Procedure	Responsibility
1	Complete and sign an Imprest Application Form either for travel on the Fund’s assignment / conferences/meetings or to undertake activities which are included in the approved work plan and budget for the period.	Applicant
2	Review the Imprest Application Form to confirm activity is within our work plan and budget for the period. Also check reasonableness of rates and quantities used. If satisfied approve and forward the Imprest Application Form to the CMF	Head of Department
3	Review Imprest Application Form and if satisfied, authorise travel or activity	DCS, CEO
4	If ticket or other procurement required, observe appropriate procurement procedures. Forward documents for payment to Finance	MSCM

No.	Procedure	Responsibility
5	Process payments	Accountant
6	Record the advance payment in the cash book. Also update the Imprest Ledger to reflect the debit on the imprest holder's account	Accountant
7	File documents	Accountant

7.6 Accounting for imprests

Imprest Accounting Form will be completed by the imprest holder, approved by the head of department and authorised by the MFA.

Any amounts not spent will be surrendered to the Accountant when accounting for the imprest, and an official receipt issued. Similarly, officers who spend more than the amount advanced will be refunded the excess amount spent after they have accounted for the advance. The excess amount must be approved by the head of department and authorised by the MFA if the amount is less than 10% of the original imprest. Amounts above 10% will be authorised by the CEO. (See *Appendix 4: Imprest Accounting Form*.)

Table 15: Accounting for imprests

No.	Procedure	Responsibility
1	Fill in an Imprest Accounting Form within 48 hours of returning to office or completion of the activity. Where a flat per diem is used, show the number of nights actually spent and rate applied. Attach supporting expenditure documentation, which include work tickets, boarding pass. Expenditure receipts must be signed at the back	Imprest holder
2	Review the Imprest Accounting Form to confirm that the activity for which the imprest was issued has been undertaken and recommend for approval	Head of Department
3	Review the Imprest Accounting Form to ensure that all expenditure items are supported by valid receipts / vouchers	PAC
4	Approve the Imprest Accounting Form	MFA
5	If there is a difference between imprest and expenditure observe payment procedure to make additional payment or receiving procedure to record funds surrendered	PAC

No.	Procedure	Responsibility
6	Ensure expenditure is assigned to the correct account codes and correctly analysed by activity codes and cost centre	PAC
7	Record the expenditure to debit the expense accounts and credit staff imprest account	PAC
8	File documents	Accountant

7.7 Un-surrendered imprest

Surrender of imprest must be made within 48 hours' time after the purpose for which the imprest was applied for has been fulfilled. If this is not done the whole amount so taken will be recovered from the employee's salary in the same month.

Table 16: Recovery of un-surrendered imprests

No.	Procedure	Responsibility
1	Generate a monthly list of un-surrendered imprest	PAC
2	Review the imprest recovery schedule	MFA
3	Recover unaccounted for imprests from the payroll	MHRA
4	File report in the payroll change file	Accountant

7.8 Debtors Management

7.8.1 Purpose

The purpose of the Debtors Management System is to ensure that amounts due to the Fund are:

- Fully captured and recorded
- Recovered as and when they fall due
- Properly accounted for with supporting documents

7.8.2 Debtors

Debtors may arise from amounts due to the Fund from another party resulting from contractual obligations or other transactions. These may include, but not limited to:

- Amounts due from services rendered by the Fund

- Amounts advanced to projects for implementation of agreed activities
- Staff advances/Imprests

The Fund maintains separate account for each debtor. Debtors' accounts shall be maintained through the receivable module in the SAGE Financial management system that generate debtor's statements and ageing analysis on a monthly basis.

7.8.3 Recoverability

- The Fund may allow up to 45 days' moratorium for amount due from services rendered.
- Project advances will be accounted for in accordance with the signed financing contracts.
- Debtors arising from staff advances shall be accounted following procedures under *Section 7.6: Accounting for imprests*.

Outstanding debts / receivables shall be followed up through phone call, physical visits and subsequently in writing to notify the debtor to honour the debt.

7.8.4 Provision for bad and doubtful debts

The MFA will at the end of each financial year provide a calculated guess of how much of the outstanding debts may be uncollectable. This proposal will be recommended by the management to be presented to the Board of Trustees in the financial statements for approval.

7.8.5 Write-off of bad debts

The management will assess all the staff and other debts owed to the organisation which are definitely irrecoverable and recommend on the best way to deal with such debts. No debt write-off will be granted to an employee still in the service of the Fund. The following procedure will be followed in writing off a debt:

- The MFA will make an assessment of the recoverability of any debts. This will entail a classification of all the debts in the Fund
- The MFA will recommend to the management the write-off of debts
- The management will receive the recommendation, review and recommend to the Board for write-off

- The decision of the Board will be communicated to the DSC through Board minutes. The MFA will effect the write off

8 PAYROLL PROCEDURES

8.1 Purpose

The purpose of the payroll system is to ensure:

- Complete and accurate data capture and payroll processing
- Production of all required reports in a timely manner
- Employees are paid in accordance with letters of appointment
- There is adequate security over payroll data
- Statutory and voluntary deductions are properly accounted for and remitted to the appropriate authorities
- Payroll expense is forwarded to the General Ledger system.

8.2 Policy

The Fund will issue appointment letters to all newly employed staff and the payroll processing will be in line with the Terms and Conditions of Service of each category of staff.

No payroll changes shall be done without the express authority of the MHR&A.

Tax will be deducted on all taxable pay in accordance with relevant tax law. The Fund will comply with local labour laws, regulations governing employment and provisions of specific employment contracts.

To avoid the risk inherent in carrying large sums of money and minimise the risk of loss of payroll funds, all staff will be required to operate bank accounts through which their salaries will be paid. Cash cheques will only be used on a temporary basis to allow new staff adequate time to open bank accounts.

The payroll will be prepared on a monthly basis. The MHR&A will ensure that this is prepared by the 20th of every month. Salary bank transfer instructions and the salary cheque will be forwarded to the bank before the end of every month to ensure salaries are credited to employee bank accounts on or before 28th of every month.

Payroll reports (net salaries, statutory and non-statutory deductions) will be verified by the MHR&A. The reports will be reviewed by the MFA who will then forward them to the DCS for approval of payments. The CEO will be the final approver of the payroll.

8.3 Payroll preparation procedures

8.3.1 Payroll master data

The MHRA will be responsible for entry and maintenance of employee master data in the human resource management information system, which shall include, but not limited to, the following details:

- Full name
- Payroll number (provided by the system / HR Dept.)
- Position
- Department
- Bank name and Branch
- Bank account number
- Statutory registration numbers (PIN, NSSF, NHIF, ID No.)
- Other registration numbers (Cooperative, HELB, etc.)
- Emoluments details
- Date of Birth
- The appointment date

Table 17: Updating payroll master data

No.	Procedure	Responsibility
1	Update payroll master data	HRO
2	Update employee record with payroll changes and prepare a payroll change advice. This could be for new staff, termination, change in salary or other payroll items.	HRO
3	Review and approve payroll change advice for input into the payroll system.	MHRA
4	Input changes to payroll system (new staff, pay change, termination), etc.	HRO
5	Review payroll data and confirm correct inputs of changes	MHRA
6	File updated reports	HRO

8.3.2 Payroll processing

All payroll adjustments will be received and approved by the MHRA and forwarded to the MFA for processing. On receipt of the payroll change advice, the MFA will review and sign it for processing in the payroll system.

The MFA will ensure strict compliance with the law in regard to taxes and other statutory deductions. MFA will ensure that the Fund obtains all the pertinent information regarding statutory deductions and complies with them. Such information can be obtained from Kenya Revenue Authority (KRA), NSSF, NHIF, the print media (e.g. Kenya Gazette), etc. Penalties due to non-compliance resulting from the negligence of an officer shall be recovered from that officer. It will be the duty of the MFA to ensure recoveries are affected on a timely basis.

Table 18: Monthly payroll processing

No.	Procedure	Responsibility
1	Receive and compile payroll adjustments and forward for processing not later than 20th of every month	HRO
2	Review, approve and forward payroll adjustments for entry in the payroll system	MHRA
3	Input changes to payroll system	HRO
4	Generate payroll reports, including pay slips, bank transfers, statutory and other deductions not later than 25th of every month	HRO
5	Review payroll reports, ensure errors noted are rectified, sign and forward to MHRA	MFA
6	Review monthly payroll reports, sign and return to Finance	MHRA
7	Authorisation of the payroll	CEO
8	Payment of salary to the respective employee bank accounts or payment by cheque	MFA
9	Pay monthly statutory and other deductions	MFA
10	Update the General Ledger with the payments	PAC
11	File documents	MHRA

9 FIXED ASSETS MANAGEMENT

9.1 Purpose

The purpose of the fixed assets management is to ensure that:

- All assets are adequately safeguarded by recording their details and monitoring their location, condition and effective usage
- There is proper maintenance of a fixed assets register, appropriately designed to include all information necessary to properly record and control fixed assets
- There is proper accounting for fixed assets with proper classification and recording
- Ensure that appropriate value of fixed assets is maintained and periodic re-evaluation is conducted

9.2 Policy Statement

Items of property, plant and equipment and intangible assets shall be recognised as fixed assets when it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.

In particular, such assets shall be acquired with the intention of being used on a continuing basis for a period exceeding one financial year. Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Assets donated to the Fund are included in the accounts at the amount attributed to them by the development partners or the fair market value, whichever is less.

All assets shall be insured appropriately.

9.3 Acquisition and classification of fixed assets

A plan for the acquisition of fixed assets will be incorporated into the annual budget and procurement plan. Only approved fixed assets will be purchased.

The cost of fixed assets will include all expenditures reasonable and necessary in acquiring the asset and placing it in a position and condition for use in the Fund's operations. This will mainly include the cash outlay necessary in acquiring the asset plus any incidental costs (e.g. expenditures for freight, insurance while in transit, installation and any other costs necessary to make the asset ready for use).

On acquisition, each asset will be verified and assigned a unique asset code number which should be physically marked on the asset and recorded in detail in the Fixed Asset Register. The fixed assets shall be classified as follows:

- Land
- Motor vehicles
- Computers
- Office equipment
- Field equipment
- Furniture and fittings
- Intangible assets

The MFA shall ensure compliance including approval of any new classification.

Table 19: Fixed assets acquisition, recording and depreciation

No.	Procedure	Responsibility
1	Raise and sign fixed assets purchase requisition / acquisition	End user or Head of Department
2	Check if the requisition is in the approved work plan and within budget	MFA
3	Approve acquisition	CEO
4	Apply appropriate procurement procedures to select supplier and acquire asset	MSCM
5	Receive procured / acquired item and inspect to ensure that the condition is satisfactory and is in accordance with the terms and conditions of the related purchase contract. If the item is technical in nature, get an expert to test and certify quality condition. Assign a unique asset code number to the asset and prepare a Goods Received Note (GRN)	MSCM
6	Forward the invoice, delivery note, inspection and acceptance report LPO / contract, payment certificates and other relevant supporting documents to Finance Department	MSCM
7	Capitalise, tag and register the asset.	MFA

9.3.1 Fixed assets register

A register should be maintained to record all capitalised assets. The purpose of a fixed asset register is to:

- Provide a means of controlling the assets including acquisition, disposal and transfer
- Determine asset cost, depreciation and net book value
- Enable assets to be checked regularly in order to avoid misuse or misappropriation.

The register should give details of each asset as follows:

- Class and category of asset
- Description of the asset including manufacturer, model, serial number and warranty details
- Cost
- Date of acquisition
- Useful life
- Depreciation
- Asset code
- Location
- Responsible official
- Condition

Assets shall be grouped in appropriate asset categories for ease of reference.

9.3.2 Physical verification of fixed assets

On a regular basis and at least once a year, each asset on the register shall be inspected to confirm its existence, location, usefulness and condition. The verification exercise shall be carried out by an officer who is independent of the acquisition and maintenance of the assets. The results of the exercise shall be adequately documented.

All assets which cannot be located must be thoroughly investigated and a full report submitted to the management of the Fund. Based on this report, management shall recommend to the Board of Trustees that the asset be written off. Appropriate action should be taken by management to avoid future loss of assets. Assets in poor condition or which remain idle should be considered for disposal.

9.3.3 Capitalisation policy

Fixed assets will be capitalised and depreciation computed from that point on. Assets with immaterial values will be expensed in the year of purchase and will be recorded in a stores register for control purposes. Small items like staplers and paper punches will be treated as consumables and controlled using a stores ledger card.

a) The acquired fixed assets shall be capitalised if the following conditions prevail:
   - (i) Acquisition value is above KES20,000/-
   - (ii) Useful life above 12 months; this shall apply to all capital asset categories except the ones specified under section (f) below

b) Repairs and maintenance costs are capitalised if the following conditions prevail:
   - (i) Repairs and maintenance costs are more than 20% of fixed asset cost
   - (ii) Fixed asset useful life increases more than one year
   - (iii) Repairs and maintenance is not a result of technical break
   - (iv) Maintenance increases the fixed assets fair market value

c) Renovations and improvements

   Renovations and improvements are upgrades to existing facilities that change or enhance the functionality of the space. Examples include, but are not limited to, projects such as interior or exterior reconditioning, adding new or significantly improved air-conditioning, heating, or ventilation equipment, fire alarm systems, emergency lighting, or a complete roof replacement.

   Valuation of costs for capitalisation for renovation and improvements includes all costs necessary for acquisition and installation, including equipment cost, transportation charges, installation costs, and inspection fees.

d) Capitalisation of project expenditure and work-in-progress (WIP)

   Project expenditure and work-in-progress represent the cost of buildings or other capital projects that are under construction at a balance sheet date. WIP represents a temporary capitalisation of labour, materials, and equipment of a construction project. When the constructed asset is substantially complete, costs in the WIP account are classified to one or more of the major asset categories and corresponding reductions must be made to the WIP account.

An asset is substantially complete when the structure or project is ready for the purpose for which it was constructed. The costs or valuation of WIP includes the total project-to-date expenditures including accounts payable, insurance premiums, interest, and other related costs.

e) Capitalisation of leased assets

Improvements to leased assets such as buildings and other structures, walkways, and permanently installed equipment items located on property leased to the Fund are capitalised if they meet capitalisation standards applicable to such improvements on the Fund's owned property. Improvements located on leased property are subject to the same valuation guidelines as of similar improvements on owned property.

f) Threshold exemptions

All purchases of computers, including personal computers, and laptops, are to be capitalised regardless of the purchase price. All equipment which comes with the computer and is required for the computer to operate, such as keyboard, monitor and mouse is deemed to be an integral part of the computer and is to be included in the amount capitalised.

The cost of repairing or replacing computer components and ancillary equipment such as keyboards and monitors is to be expensed unless the cost exceeds KES20,000/- and the expenditure increases the useful life of the computer to which it is related.

9.3.4 Depreciation

The straight-line method of depreciation will be used. This will allocate the cost of the depreciable asset uniformly over its expected useful life. The annual depreciation will be based on the full acquisition cost of the depreciable asset, net of its salvage value, as applicable. The rate will apply from the date the asset is placed into use, utilities disposed, written off or utilities fully depreciated, whichever occurs first.

Sets of assets e.g. office furniture, purchased at a single point in time should be considered a single asset for depreciation, even if individual components of the set cost less than the minimum value for capitalisation. The following rates will be used in computing depreciation:

Table 20: Estimated useful life and depreciation rate for various assets

Item	Estimated useful life	Depreciation % per year
Motor vehicles	4 years	25
Computer	4 years	25
Office equipment	8 years	12.5
Field equipment	4 years	25
Furniture and fittings	8 years	12.5

Fully depreciated assets shall be disclosed in the Financial Statements, in addition to presentation of historical cost and accumulated depreciation.

10 ACCOUNTING FOR PROJECTS

10.1 Introduction

The Fund seeks to ensure that the policies and procedures related to administration and accounting for funded projects are documented, communicated, clearly understood, and consistently applied. This is because the accounting process for projects could be complex due to multiple funding sources, large volume of expenditures, and the crossover of expenditures into multiple fiscal periods.

The general principles that guide the financial management of projects are:

- Transparency, quality and efficiency
- Manage cash flow, disbursements and procurement in a manner that enhances programme implementation
- Account for funds accurately at each level of programme implementation, supported by continuous audit services
- Meet GAAPs reporting requirements and utilise all approved programme funds
- Meet the donor accounting and reporting requirements as stipulated in the financing agreement
- Performance-driven disbursements based on accurate and timely accountability reporting
- Minimise fund loss, delays in project implementation and program failure

10.2 Project accounting procedures

10.2.1 Accounting for advances to sub-grantees

- The Fund will have a valid financing agreement for each project between itself and the specific sub-grantee
- Funds shall be disbursed to sub-grantees based on provisions of valid financing agreement alluded to above
- The Fund shall maintain a sub-ledger for each project in the books of account
- Disbursement to projects shall be recorded as advance payments
- Sub-grantees shall utilise the funds, prepare and submit financial reports (Fund Accountability Statements)

- The Fund shall review the reports and expense the amounts advanced. Sub-grantees shall refund any monies remaining upon project closure

10.2.2 Accounting for direct projects payments

Payments made for milestones already achieved will be written off as expenses. Such payments include the following:

- Subsidies
- Management fees
- Project consultants
- Other project overhead costs

10.3 Accounting for donor-funded projects

10.3.1 Project code

Every project will be assigned a unique project code as per the chart of accounts. This code enables a distinct sub-ledger to be created for each project where all the financial transactions are captured.

10.3.2 Establishing and updating programme budget-lines

Each programme shall be required to have a revenue and expenditure budget-line. Use of the budgets shall ensure that total expenditures do not exceed total revenue, and total expenditures do not exceed the approved expenditure limitation.

10.3.3 Transfer of funds

Every funding source will have a separate bank account. Funding to programmes shall be recorded as revenue in the General Ledger. Different sources of funding may not be commingled in the same bank account.

10.3.4 Payment of expenditures

Except for cost-reimbursable projects and projects with documented and formally approved reimbursement resolutions, expenditures may only occur after funding is received. Each expenditure must be charged to the correct programme fund and to the correct budget-line. Expenditure may only be charged to the project to which they pertain.

10.3.5 Terminating programme funds

Once a project is complete, the applicable programme funds shall be terminated as soon as possible to eliminate the possibility of mistakenly charging additional expenditures to those projects. Moreover, a review of completed projects shall be done at the end of each financial year. Programme funds may not be terminated until the following requirements are met:

- All expenditures of that fund have been paid
- All amounts withheld as construction retentions have been refunded to the contractor
- The programme fund has no remaining fund balance

However, provisions of each financing agreement will apply.

10.3.6 Closure of project debts

The project audits' questioned costs will be closed as per the procedures agreed from time to time between the Fund and the development partners.

10.4 Monitoring projects implementation

The objectives of monitoring capital project funds are to ensure that actual expenditures have not exceeded actual revenue, thereby resulting in a negative cash balance. Although negative cash balances do occur in cost-reimbursable situations, a negative cash balance in any capital project fund requires review and follow-up.

Each project shall be evaluated periodically (monthly, quarterly or annually as appropriate) to ensure that required tasks are implemented on time and the project objectives are achieved. A technical report including a comparison between actual implementation and required objectives to be achieved shall be prepared each specified period. Project reports shall be generated from accounting records based on forms and report duration specified by donor.

A financial report (statement of projects expenditures) for each project and a combined statement for all projects including a comparison between budgeted and actual expenditures, percentage of completion and percentage of amounts received of total grant shall be prepared.

Any over budgeted actual expenditures, and unachieved objectives should be justified. Bank reconciliation for each bank account should be prepared.

The name of each project should be written on the projects related accounting records, purchase orders and invoices.

Grants denominated in currencies other than the Fund's functional currency should be recorded in the accounting system at the equivalent amounts in the Fund's functional currency. Reports to donors shall be converted to the respective currencies using exchange rates determined as per *Subsection 3.3.5: Foreign currency translation*.

10.5 Project appraisal and approval procedures

The projects will be appraised and approved in compliance with the specific investment programme appraisal and approval procedures. Such procedures are covered in the respective operation manuals.

10.6 Financial monitoring of projects

The purpose of financial monitoring is to ensure that funds disbursed from the Fund for the implementation of projects are utilised as specified in the contract and which accommodates both procurement and financial management of funds during project implementation.

In particular, Finance & Accounts Department will monitor the application of funds in the investment programmes or any other implementing agents and report to the management at least on quarterly basis.

11 REPORTING PROCEDURES

11.1 Reporting

11.1.1 Reporting to development partners

The Fund shall observe specific accounting policies and reporting requirements, including the timelines, deliverables and structure of the reports that may be set out in agreements between the Fund and any development partners providing funding.

11.1.2 Monthly procedures and reporting

The Fund's accounting system shall be designed to generate financial management reports at the end of each month. The reports will be detailed enough to meet management information needs as well as development partner requirements.

11.1.3 Annual procedures and reporting

The Fund will prepare annual financial reports for each accounting period. These reports will be reviewed by the Board of Trustees and approved for distribution to stakeholders.

The detailed list of reports to be prepared may include but is not limited to those outlined below:

Table 21: Reporting frequency

No.	Name of report	Frequency
1	Fund Accountability Statement	Per development partner agreement
2	Income and expenditure report vs. budget	Monthly
3	Cash flow projections	Bi-annual
4	Bank reconciliation for all bank accounts	Monthly
5	Aged debtors (both sub-grantees and staff)	Quarterly
6	Movement in provision for bad and doubtful debts	Annually
7	Inventories listing with related book values (physical stock reconciled to the General Ledger)	Annually

No.	Name of report	Frequency
8	Supplier sub-ledger reconciliations and Aged Creditors Listing	Quarterly
9	Accruals listing	Annually
10	Fixed assets register	Quarterly
11	Reconciliation of the payroll to the General Ledger	Monthly
12	Movement in reserves for the period	Annually
13	Annual report and Financial statements	Annually

11.1.4 Categories of expenditure

The categories of expenditure for reporting will be as follows:

- Administrative expense
- Project expenses

The above categories will be further broken down as follows:

i) Administrative expenses will include costs specifically incurred at the head office and arising from head office operations.
ii) Project expenses are funds that have been disbursed to projects and have been accounted for by the sub-grantees. The sub-grantees submit fund accountability statements (FAS) on a regular basis as specified in the financing agreements.

11.2 Projects audits

The Fund may appoint an independent auditor to carry out audit of its grantees. The audit team will have access to the financial management records of the grantees for periodic reviews, inspections and audits. The project audit report will be submitted to Development Partners as stipulated in the various financing agreements and/or MoUs.

11.3 Statutory audits

The Board of Trustees shall keep proper books of account and shall prepare annual statements of accounts consisting of an statement of financial performance relating to a period of not more than 12 months and of financial position relating to the end of such period.

The accounts of the Fund shall be audited in accordance with the provisions of the Exchequer and Audit Act, Cap 412 by the Office of Auditor General (OAG) or by an auditor appointed in accordance with the Public Audit Act, 2003.

Development partner funds shall be accounted for separately in accordance with the respective Memorandum of Understanding (MoU).

11.4 Structure of accounts and analysis codes

11.4.1 Chart of accounts

The design of a chart of accounts normally depends on:

- The reporting requirements
- Data analysis and reporting compatibility of the accounting software on which it is based

To meet the identified reporting requirements, the project accounting software will have a strong data analysis capability and a flexible report generator. Based on the reporting requirements and operations of the Fund, the account codes will have segments as outlined in *Appendix 5* and *Appendix 6*, for charts of accounts for statement of financial performance and statement of financial position, respectively.

ENDORSEMENT AND AUTHORIZATION

The Chief Executive Officer recommends the Finance Policy & Procedures Manual for approval by the NETFUND Board of Trustees. The CEO confirms that the policy has been developed consultatively taking into account the views of all relevant stakeholders.

Signature: Date: 09-04-2021

Samson Toniok
Chief Executive Officer and Secretary to the Board of Trustees

The NETFUND Board of Trustees hereby approves the Finance Policy & Procedures Manual for operation and subject to review when necessary.

Signature: Date:

Hon. Moses Akaranga
Chairperson, Board of Trustees

APPENDIX 1: FINANCE POLICY AND PROCEDURES MANUAL AMENDMENT FORM

NATIONAL ENVIRONMENT TRUST FUND

Request for Amendment of Finance Policy and Procedures Manual

Manual ref.	***Proposed amendment***	***Amendment initiated by (Sign and date)***	***Amendment approval (sign and date)***	***Amendment effected by***	***Revised manual circulated***

APPENDIX 2: PETTY CASH REQUEST FORM

NATIONAL ENVIRONMENT TRUST FUND

Date …………………………………

Name____

Department ______________________________Division ________________________

Purpose ____
____

Amount required (KShs) ___________________Read ___________________________
____

- To be accounted for (Date) ________________

Signed ________________________ Date ___________________________
(Applicant)

Departmental Approval _________________ Date ___________________________

<u>FINANCE DEPARTMENT</u>

1. Details of other I.O.U.'s taken yet not surrendered.

Date Taken	**Amount (KShs)**	**Remarks**
a) ______________	______________	___________________________
b) ______________	______________	___________________________
c) ______________	______________	___________________________

2. **Budget Amount ___________________Expenditure to Date ______________**
Balance _____________________
Prepared by _____________________ Date _______________________

FINANCIAL APPROVAL _____________ Date _______________________
Received (KShs) _____________ Signed _______________ Date __________

(I.O.U.s to be accounted for latest by the following working day.)

<u>SURRENDER</u>
Cash refunded (KShs) _____________________ Date Received _______________
Receipt (Total) KShs _____________________ Cashier's Signature ___________
TOTAL (KSHS) _____________________

APPENDIX 3: IMPREST APPLICATION FORM

NATIONAL ENVIRONMENT TRUST FUND

IMPREST FORM

Name……

Personnel No. ……

Designation ……

Department ……

Purpose of Imprest ……

………

Number of days ………

Amount required Kshs ………………… (Kshs in words)……………………………………………………………

………

Name of Company to be charged (if recoverable) ……………………………………………………………………

………………………………………………………………………………………………………

Undertaking
I undertake to account by receipted bills and refund any unutilised balance of the above imprest immediately on my return from the journey, entertainment etc. failing which the amount unaccounted for or due for refund should be recovered from my salary without prior notice to me.

Signed ……………………………………. Date: ………………………………….
(Imprest Holder)
Department Head (Recommended or/Not Recommended) ………………………………………………………………

Date: ……………………………………

Finance Division
Details of other imprests taken and not yet surrendered: -

Date Taken	Amount (Kshs)	Remarks
1. …………………….	……………………	………………….
2. ……………………	……………………..	…………………….
3. ……………………	……………………..	………………….

Financial Approval
………

Attach copy of approved memo or approved requisition

APPENDIX 4: IMPREST ACCOUNTING FORM

NATIONAL ENVIRONMENT TRUST FUND

NAME_ **DATE:**

DEPARMENT_:

DATE OF DEPARTURE: **DATE OF ARRIVAL_**

NUMBER OF DAYS AUTHORISED PER IMPEST FORM_:

PURPOSE OF TRAVELLING_:

TO RECOVER FROM (IF RECOVERABLE)____

A.	**IMPREST ISSUED**		**kshs**
	Amount of imprest taken(		-
B.	**EXPENSES**		
	1	Per Diem allowances @ Ksh. per night for days	
		- -	
	2	Accomodation	
	3	Meals	
	4	1/4% of 2 & 3 above	
	5	Entertainment *(Names of people entertained)	
	6	Railway/Bus fares/Taxis*	
			-
	7	Petrol and Oil*	
	8	Mileage allowances(Motor Car c.c.____________as Kshs_______________	
		per K.M. for ________________Kms (from____________________	
		to ______________________________)	
	9	Sundries (Receipts in respect of Repairs as per attached)	-
C	**Total Expenses**		-
D	**Surrender/ (Refund)-(NETFUND:Holder(A**	**Kshs**	-

Imprest Holder _______________________ **Date**_______________________

Checked By___________________________ **Date**_______________________

Authorised by_________________________ **Date**_______________________

Attach copies of work ticket, boarding passes, receipts signed on the back

APPENDIX 5: CHART OF ACCOUNTS – INCOME STATEMENT

NATIONAL ENVIRONMENT TRUST FUND

Chart of Accounts – Income Statement

ACC. CODE	DESCRIPTION	ACC. CODE	DESCRIPTION
300000	Income	400502	Strategy & Corporate Governance
300101-565	Government - Recurrent Grant	400504-500	HR Consultancy
300101-570	Government - Development Grant	400504-650	Legal Services
300202-565	Foreign Government - Recurrent Grant	400504-655	ICT Services
300202-570	Foreign Government - Development Grant	400504-660	Audit Services
300301	Contributions & Donations	400504-665	Others Services
300401	Investment Income	400520	Insurance
300402	Income from other Sources	400601-500	Travel-Local
400101-580	Basic Pay	400601-501	Travel-Foreign
400101-583	Other Salary Allowances	400603	Computer Accessories
400101-585	Pension contribution & NSSF-Employer	400604	Rent and Parking
400101-590	Leave Allowance	400605	Fuel ,Lubricants & Other Transport Costs
400101-595	Gratuity	400607-770	Telephone & Postage
400101-600	Costs Charged to Projects	400607-775	Internet Charges
400102	NITA Employer expense	400609	Office General Supplies
400103	Leave Allowance	400610	Bank charges
400104	Gratuity	400611	Catering & Hospitality Expense
400105	Costs Charged to Projects	400612	Staff Welfare Costs
400201-610	Chairmans Honoraria	400613	Advertisements
400201-615	Sitting Allowance	400615	Publishing & Printing
400201-620	Travel & Accommodation Allowance	400616	Corporate, CSR & Showcasing Acivities
400301-625	Depreciation,Property Plant & Equipment	400617	Catering & Hospitality Expense-Welfare
400301-630	Depreciation,Intangible Assets	400618	Catering & Hospitality Expense-Cleaning
400401-640	Repairs,Motor Vehicles	400701	RM & International Forums
400401-642	Repairs,Computer & Printers	400702	Development grant Projects
400401-644	Repairs,Furnitue & Equipment	400702-675	NETFUND GIA
400401-646	Repairs,Others	400702-680	ACCF Project
400501	Training Expense		

APPENDIX 6: CHART OF ACCOUNTS – BALANCE SHEET

NATIONAL ENVIRONMENT TRUST FUND

Chart of Accounts – Balance Sheet

ACC. CODE	DESCRIPTION	ACC. CODE	DESCRIPTION
100000	Fixed Assets	102603	LECRED Project
100300	Furniture & Fittings	102955	Bank Clearing Account
100301	Cost of furniture	200101	Capital Reserves
101301	Accumulated Deprec. on furniture	200102	Accumulated Surplus
100100	Motor Vehicles	200103	Revaluation Reserves
100101	Cost of Motor Vehicles	200104	Other Reserves
101101	Accumulated Deprec. on Motor Vehicles	200201	Notes Payable
100200	Computer Equipment	201101	Account Payables
100201	Cost of Computer Equipment	201103	KENYA NATIONAL INNOVATION AGENCY (I
101201	Accumulated Deprec. on Computer Equipment	201104	TREE PLANTING
100400	Office Equipment	201105	ECONOMIC STIMULUS PACKAGE
100401	Cost of Office Equipment	201110	Provisions
101401	Accumulated Deprec. on Office Equipment	201301-550	VAT
100500	Intangible Assets	201301-555	Withholding Tax
100501	Cost of Software	201301-560	Fuel Tax
101501	Accumulated Armotization on Software	201401	Staff Payable
102000	Current Assets	201501	Accrued Expenses
102101	Inventory-Computer Accessories	201601	Deferred Income
102102	Inventory - General Supplies	201201-505	Net Salary
102103	Inventory - Hospitality	201201-510	PAYE
102104	Inventory - Welfare	201201-515	NSSF
102105	Inventory - Cleaning	201201-520	NHIF
102201	Account Receivables-Grants	201201-525	Pension Schemes
102202	Account Receivables-Others	201201-530	Insurance Premiums
102203	Staff Receivables	201201-535	SACCO Contributions
102301	Prepayments to Suppliers	201201-540	Bank Loans
102401	Deposits	201201-543	NITA- Payable
102402	Accrued Interest	201201-545	HELB
102501-755	Petty Cash - General	201701	Payable clearing
102501-760	Petty Cash - CEO	201702	Return clearing
102601-710	KCB- Recurrent	201703	Cost Variance
102601-715	KCB- Development	201704	Assembly cos credit
102601-720	KCB - NETFUND GIA	201705	Non stock clearing
102601-725	KCB - IGAD Project	201706	Transfer clearing