



KENYA COMMUNITY DEVELOPMENT FOUNDATION

FINANCE MANUAL

Revised May 2016

SECTION I

PURPOSE AND OBJECTIVES OF THE MANUAL This manual sets out the principles and practices used within KCDF for handling money, recording transactions, exercising control over financial matters and reporting.

1.1 Provides a Standardized Accounting Procedure

This document contains written accounting and reporting procedures in line with the KCDF requirements. It provides for a standardized accounting system for the collection, analysis and reporting financial transactions in order to assist management to run the activities of KCDF effectively and efficiently.

1.2 Standard Reference Document for Making Quick Decisions

This manual will also be used as a standard reference document for rapid decision making. Key policies and procedures have been outlined in each key area to ensure there is consistency in decision making by different persons faced with similar situations to enhance objectivity and avoid personal conflicts among staff in carrying out the organizations activities.

1.3 Act as Reference Document for the On-the-Job Training

The Manual outlines policy statement and procedures in key operational areas that would serve as guide for news staff in the organization especially those in the Finance section.

2. POLICIES

2.1 Basis of preparation

The Financial Statements are prepared in compliance with the IFRS under the historical cost convention.

2.2 Property and Equipment

All categories of plant and equipment are recorded at historical cost less accumulated depreciation.

Repairs and maintenance cost is charged to the income and expenditure a/c in the year that it relates to.

2.3 Depreciation

Depreciation is calculated on a straight line basis at the following annual rates estimated to write-off the assets over their estimated useful lives:

Leasehold Building	2.5%
Motor Vehicles	25%
Office Equipment, furniture & fitting	12.5%
Computers	30%
Intangible Assets	33.33%
Motor Vehicles	25%
Leasehold land	50 years

A full year's depreciation should be charged in the year of purchase of an asset and nil in the year of disposal. On disposal, the difference between the net disposal proceeds and the carrying amount of the asset sold is recognized in the profit or loss.

If there is an indication that there has been a significant change in the depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

2.4 Translation of foreign Currency

The books of accounts are kept in Kenya Shillings (Kshs). Transactions in foreign currencies are translated into Kenya shilling at rate ruling in the transaction date. Mostly the rate will be determined at the prevailing Central Bank rate in the accounting system which will be set at the beginning of every month and updated as often as possible to reflect the current rate ruling.

Any foreign exchange gain (loss) will be reconciled to foreign exchange account during the normal reconciliation under profit or loss.

2.5 Taxation

KCDF is exempt from income taxation.

2.6 Retirement Benefit Costs

The Organization operates a defined contribution staff retirement benefit scheme for their employee which is administered by Octagon Personal Pension Services. KCDF

contributes 10% towards employee pension while a staff member contributes a 7% towards the individual pension plan at the end of every month. The contributions are charged to income statement as they fall due

The organization and its employee also contribute to the statutory National Social Security Fund (NSSF). The contributions are determined by the Kenya Statutes and charged to the income and expenditure statement in the year in which they relate.

2.7 Interest Income

Interest income is recognized for all interest bearing instruments on an accrual basis taking into account effective yield on the asset.

2.8 Revenue Recognition.

Grants received are either for specific projects or for general project costs.

Grants received for specific purposes are treated as unexpended grants payable in the balance sheet and credited in the income & expenditure when their specific activities have been carried out.

Specific grants not received but related cost have been incurred are recognized as grants receivables. Excess of expenditure over receipt is also referred to as grant receivable

General grants are recognized as income when received.

2.9 Expenditure Recognition

Expenditures are recognized on accrual basis. These comprises of expenses incurred directly for programme activities and administrative functions

3. Finance Manual Review

The Finance Department shall review the accounting procedures in line with the organization's growth every two years and make the necessary updates upon approval by the Board.

All the policies and procedures in this manual are important and all programs are expected to comply with them. In situations where a particular policy or procedure is found not applicable or inconsistent with other policies, this should be discussed with the Head of Finance and will require explicit approval from the Chief Executive Officer.

SECTION II

AUTHORIZATION POLICIES AND PROCEDURES

4.0 Authorization Principles

- For the purpose of accounting control, authorization refers to the signing of a document to verify approval. This signature verifies that the signatory has read and reviewed the documents and agreed to their contents. Verbal approval is not sufficient for authorization unless ratified in writing.
- To enhance transparency no employee should authorize his/her own claims.
- The level of authorization will depend on the nature of the transaction and its monetary value as stipulated in the limits below.
- It is a breach of organizational policies to commit the organization beyond a signatory's mandate/limit and may result in disciplinary action as per the Human Resource Manual.

4.2 Authorization of expenditure

The person responsible for controlling expenditure within a part of the financial plan (the "budget holder") for each programme or department is required to authorize each expenditure transaction. This authority must be evidenced by signature on the invoice provided by the supplier of the item or service.

In circumstances where a supplier does not provide an invoice, a document may be generated within KCDF on which the authorization must be evidenced. Each budget holder is supposed to know the nominal codes relating to that part of the plan for which they are responsible.

Each item of expenditure must be charged to a nominal code within the accounting system. Each budget holder is responsible for the expenditure to a nominal code in the range for which they are responsible. The budget holder must check and sign the invoice to evidence authorization for the expenditure and write on the invoice the nominal code to which the expenditure is to be allocated.

On special occasion ,where an expenditure is acquired on credit, the budget holder is required to note on the invoice the date on which payment is to be made by the Finance Department

4.3 Levels of Authorization

4.3.1 The **Executive Director** will approve/sign:

- All grant agreements and property leases, renovations and construction work
- All grant agreements up to Ks. 500,000 approved by the Grants approval panel.
- All other payments (including purchases or travel expenses) up to Ksh.500, 000.
- Countersign all grant agreements above Ks.500,000 with a Board Chair or one of the appointed directors.
- Travel requests for all staff members for amounts exceeding Ks. 300,000.
- All consultancy contracts above Ks.100,000
- All employee contracts.
- Monthly Bank Reconciliations.
- All personal and official expenses of all managers reporting to her/him.

4.3.2 The **Head of Finance** will approve/sign:

- All procurement requisitions of amounts between Ks.30,000 up to Ks.100,000 for requirements in their respective departments with (LPO) approved by the Head of Finance.
- Travel requests for amounts up to Ks. 100,000 for staff.
- All personal and official expenses of all staff within the departments.
- All procurement requisitions and Local Purchase Orders (LPO) of amounts not exceeding Ksh.500,000.
- Check the ED's travel advance requisitions with expenses being approved by the Board Chair.
- Check the cheque payment voucher of payments above Kshs 500,000 before a cheque is made.
- All the Adjusting Journal Entries made by the Finance Assistants, Accountant & Senior Accountants.

4.133. The **Program Director** will in addition to above approve/sign

- Travel requests for amounts up to Ks. 300,000 for all staff.
- All personal and official expenses of all staff within their departments.

- In case of the ED not being in, the PD will approve another manager's requisition but the expense will have to be approved by the ED.

4.3.4 The **Board Chair** shall approve all of the ED's official and personal expenses.

4.3 5 Grant Approval Panel will approve

- All grants not in excess of two million.

4.3.6 The **KCDF Board** will approve

- All Grants over Ks500,000 with the Board Chair or the Vice Chair countersigning the grant agreements with the CEO
- Members and Term of References of Advisory committees set up for different programs.

5.0 BANK TRANSACTIONS

5.1 Bank Accounts

KCDF shall operate a Kenya Shillings, Sterling Pound, Euro and a US Dollar bank account in the banks approved by the Board in the name Kenya Community Development Foundation. Any opening/closure of a bank account will require the authorization/approval of the board.

The two signatories to the account shall either be:-

The Board Chair

The Vice Board Chair

The Executive Director (ED).

The Program Director.

The Finance Manager.

A separate Trust Bank account shall be maintained and the two signatories shall be the

The KCDF Trust Chairman

The KCDF Trust Vice Chairman

5.2 Foreign Currency Conversion Rate

- Priority goes to KCDF bankers. However before the deal is concluded after a comparison with the central bank rate and the prevailing current market rate as way of obtaining a better exchange bargain. This shall be negotiated by the Finance Manager.
- In the absence of the Finance Manager authorization shall be done by the P.D on recommendations provided by the Senior Accountant.

6.0 PAYMENT

6.1 General Guidelines

The overall responsibility of the proper management of the KCDF's payments shall be that of the Head of Finance.

- A cheque payment voucher and a cheque shall be prepared by the Finance Assistant when any of the following documents are received:
- An original invoice from the vendor and countersigned by the budget holder set out in the authorization of expenditure. The invoice shall be attached to a properly approved requisition form/LPO and copies of the quotations (where necessary) and evidence of receipt for the item purchased (e.g. delivery note) or satisfactory performance of services. He/she shall ascertain that the prices and invoice calculations are correct and that the costs are a genuine obligation of KCDF. Where only a duplicate, photocopied or scanned invoice is available explanation should be given as to the circumstances.
- An original invoice from a travel agent attached to a properly approved travel authorization.
- In case of consultancy the 1st installment payment will be based on the 1st received invoice and the agreement as per the signed contract on which a copy of the pin will be attached. The final payment will also be based on the final invoice reflecting the deposit already paid and the balance remaining. This should be accompanied by copy of a report they were working on and a confirmation memo from the program officer that the work performed was satisfactory.
- For grants- a memo from the P.O supported a signed grantee letter. In the subsequent installments payment a grant certificate signed by the Senior Accountant Grants, a summarized narrative report by PO's and a budget projection of the next disbursement should serve as supporting documents to the memo. All grants shall be paid via

- electronic funds transfers. A confirmation of grants funds sent shall be done by the Finance assistant to the respective grantee for their acknowledgement of receipt of funds. Any grants not confirmed by the grantee within 2 weeks after payment shall be notified to the Finance Manager.
- The cheque payment Voucher (CPV) shall be numbered according to the cheque numbers they relate to.
 - The cheque counterfoil **must** always be completed with the following details:
 - Date
 - Payee
 - The value
 - The Finance Assistant is responsible to ensure that the cheque books are kept securely in the safe and that no leaves are unaccounted for.
 - Cheques must be completed clearly and in ink. No gaps should be left before or after words and figures that would allow later falsification of the details or value of the cheque.

6.2 Cheque Payment

On receiving complete & approved documentation the Finance Assitant shall raise a Cheque payment Voucher and forward it to the senior accountant or the Head of Finance for checking as per set out approval levels.

He/she shall then prepare a cheque and forward it to the signatories for signing. Approval of the CPV shall be done at the signing level by either the ED or PD.

6.3 Payment Schedule

To ensure proper planning of the finance department and minimize unnecessary personal conflicts, payments shall be made on the following timelines:

- All payments request shall be submitted two (2) working days in advance through the appropriate documentation specified.
- As much as possible Cheques will be written once a week on every Tuesday.

On occasions where cash may be required to be transferred to a specific bank account to the credit of staff/consultants to meet urgent field staff travel requirements the payee will be

required to raise a memo requesting the transfer. The memo should include his/her full bank details and signed by the payee.

6.5 PETTY CASH

6.5.1 General Guidelines

- The Finance Assistant shall maintain a set amount of Petty cash float that is proposed by Finance and approved by the Management. Currently, the Petty cash float is Ks 50,000. A review to either increase decrease or maintain the float shall be done on yearly basis and will require the same approval.
- The finance assistant is responsible for all amounts dedicated to the petty cash fund. The F.A will prepare a Weekly petty cash Report showing Date, opening balance,, any receipts during the week and a list of petty cash expenditures showing the payee amount and closing balance broken down to actual denominations. This will be checked by the Head of Finance before filling. The balance should always be equal total float less Disbursed Expenditures.
- A review of the cash balance should be made any time the responsibility for the fund is transferred to another person (e.g. when the finance assistant is on leave). This shall be done through preparation of the petty cash report which shall be signed by both parties and witnessed/checked by the Head of Finance.
- The Senior Accountant shall perform a surprise cash count from time to time. The balance shall be recorded and both the Head of Finance and Finance Assistant will sign against it.
- In event that there is a shortage or an excess in actual petty cash held, the cashier should notify the Finance Manager immediately in writing and this should be investigated.
- The Petty cash float will be used to reimburse staff expenses (e.g. taxis), small purchases and medical reimbursements.
- Reimbursement will only be for approved expenses not exceeding Ks. 5,000 for each single payment.

6.5.2 Specific Procedures

6.5.2.1 Petty Cash Request

An employee shall be required to fill in a *petty cash requisition form*. The form will show details of expected expenditure and the programme/department cost code to be charged and signed by the Senior accountant Grants Management as a confirmation of accuracy of the information and also the availability of fund in the proposed budget line. The requisition will then be signed by the *Head of Finance or PD* (if it involves a program activity) as an approval of the expenditure.

Petty cash Payment will be done upon presentation of an approved petty cash requisition to the Finance assistant during cash hours.

Cash hours will be 2.00-3.00 p.m. This shall be strictly adhered to enable the FA carry out other finance duties.

6.5.2.2 Petty Cash Payments.

On receiving a duly approved *petty cash Requisition* the cashier will then pay the money and account the same as an open advance. He/she will be expected to show petty cash not accounted for and the recipients in the *petty cash report*.

6.5.2.3 Accounting for Petty Cash

Accounting for petty cash shall be done within 24 hours of receipt of cash. Further Petty Cash Requisitions from staff who have outstanding amounts will not be honored. Any unspent amount shall be returned with the original expenditure receipts to the Finance Assistant who in turn shall record the actual expense and refund in the petty cash fund. Any money spent over the approved expenditure shall be refunded immediately after approval by the Head of Finance. On refund the employee shall sign against the amount refunded.

6.5.2.4 Reimbursement of the Petty Cash Float

Replenishment of the float shall take place when Ks.35, 000 to Ks. 40,000 of the fund has been converted into expenses. The F.A will compile all the petty cash requisition (in

numerical order) together with the supporting receipts attach it to the petty cash report/list for approval by the Head of Finance after which a cheque payment voucher will be raised and an open cheque made to the organizations bank agent.

The Petty cash report will contain the date payee numerical number of the requisition and description of expenditure.

6.6 Staff expenses

6.6.1 Staff Advance/Float Request

- An employee shall be required to raise memo for the expenditure advance, which will be reviewed by the SA as a confirmation of accuracy of the information and also the availability of fund in the proposed budget line. The memo will then be approved by the section head/supervisor/ ED depending on the approval amount level.
- The Memo should contain sufficient details in support of the amounts requested to enable the reader to understand the reason why the expenses are to be incurred. For travel expenses this must include details of the purpose of a journey and the places to be visited. A reasonable summary budget will also be attached to justify the amount requested.
- It is acceptable to add a reasonable amount as a security float (for use when out of country in case of emergency). This shall be reviewed in relation to the destination.

6.6.2 Staff Advance Payment

On receiving the dully approved memo with all necessary attaching documents the FA shall raise CPV and later a cheque made to the company's bank agent to encash it.

The money will be disbursed to the respective employee through the signing of the cash payment voucher to confirm receipts of money. The voucher should then be attached to the CPV and filled.

The FA shall debit the amount advanced in the individual staff float account.

Dr Staff advance a/c xx

Cr Bank

xx

In the event that the amount to be disbursed relate to several staff each staff shall sign for their share in the cash payment voucher and the same will be debited to their individual staff float account.

6.6.3 Accounting for staff Advance.

Accounting for an advance shall be done within a week after return from the field. A staff will be required to fill in a liquidation/claim form attaching all the supporting documents. Receipts should support all expenditure claims. Receipts should be sequentially numbered, classified in the different categories they relate to and attached to the expenses claim form that they relate to.

Where a receipt covers the expenses of more than one eligible person (e.g. where 2 people have a meal together and only one receipt is received), only the person who paid the expense should claim. The claim form should state how many people the receipt covers and who they were.

These should be handed over to the Finance Assistant with refunds if any. The FA will issue a receipt (check cash receipt procedure) then forward it to the SA for verification of the receipts and their viability and later to the respective supervisor for approval.

After the Approval the SA shall pass a Journal to expense the actual expenditure to their respective account codes. This will be done by debiting the appropriate expense a/c with actual expense then crediting the individual advance account with the actual expense and refunds (if any).

Dr	Expense a/c	xx	
	Cr	Staff Advance a/c-expense	xx
	Cr	Staff Advance a/c –refunds	xx

Occasionally it is not possible to obtain a receipt. Where this is the case the expenses claim form must include sufficient detail of the expenses incurred and the reason for not having receipts. The amount in question should be viable.

6.7 GRANTS

On grants approval the SA grants will obtain the approved list from P.O which will be the basis of passing the Journals. The JV's will be done by debiting the grants approval account and crediting the individual grantees a/c this will automatically create a liability (grants payable).

Dr Grant a/c xx

Cr Grantee a/c xx

Once the payment has been done, the cheque will be posted to the grantee account to clear the balance and as result clear/reduce the liability (grants payable). This is will be done by

Dr Grantee a/c xx

Cr Bank a/c xx

6.8 BANK STATEMENTS AND RECONCILIATION

- A bank statement will be obtained at the end of every month for each bank account. On receipt they should be stamped received and filed sequentially in the bank statement file.
- All payment/deposits for month will be posted into the cashbook before the end of the month and before any commencement of reconciliations. The cash book balance will then be reconciled to the balance on the bank statement.
- The reconciliation should take into account of the cheques drawn, and not yet presented at the bank and deposits made which have not yet been recorded on the bank statement.
- The bank statement should also be analyzed for payment/ deposits that never passed the KCDF cashbook. Explanation will be sought from the bank for any amounts in the bank statement that have been directly debited or credited.
- The SA is also expected to bring to the attention of Head of Finance all unpresented cheques approaching three months for necessary action to be taken
- In case of errors in the bank statement the bank should be informed of the error immediately in writing.

Monthly Bank reconciliations shall be prepared (with all differences resolved) by the 10th of the following month to be reviewed by Head of Finance and approved by the ED.

6.9 Disbursement of Completed Cheques

- Completed and signed cheques will be handed over to the executive assistant or in her absence the front office officer (who shall record them in the cheque disbursement book) for disbursement either by the messenger or hand over personally to the supplier/Payee.

- The cheque disbursement book shall contain the date received chq no, payee Date collected ID no signature and amount.
- Any individual collecting the cheque will be required to present an identification number.
- In event where an individual is collecting a cheque on behalf of supplier/ grantee they shall be required to present a letter of introduction/authorization.
- The individual shall then sign in the cheque disbursement book.

6.10 CANCELLED CHEQUES

- In the event that a cheque is to be cancelled the word “cancelled “should be written across the cheque and the stub in ink and the cheque punched on both edges. The cancelled cheque should be stapled back into the cheque book on the corresponding cheque stub.
- The original payment request and other papers may now serve as the backing to replace cheque.
- Details of the replacement cheque should be cross-referenced to the previously cancelled cheque.

6.11 STALE OR LOST CHEQUES

- A cheque will be regarded as stale if it's not cashed up to the period of 6 months. These shall be voided with a new one reissued if necessary.
- The SA is expected to bring to the attention of Head of Finance all unrepresented cheques approaching six months and efforts shall be made to contact the recipient of a cheque to discover why it remained un-cashed before its expiry.
- The stale cheque will then be reversed in the cashbook by crediting the account that was charged when the cheque was prepared.
- A new payment voucher will only be completed if it is appropriate to replace the cheque.

6.12 Stolen/Lost Cheques.

Replacement of cheques which have been lost or stolen prior to cashing may be replaced upon notification from payee that a cheque was lost or stolen, provided that Finance has satisfied

itself that the cheque has not been paid. Finance shall then place a stop order with the bank at which the cheque is payable. Upon confirmation of the stop payment from the bank, a replacement cheque may be issued.

This shall be noted in the cashbook and in the CPV the same way as a stale cheque.

6.13 Payment via Electronic Funds Transfer

KCDF shall endeavor to make use of electronic funds transfer by having the suppliers and grantees provide their bank account numbers indicated on their invoices, grant certificate or in a signed letter head.

- On receipt of a duly approved and supporting documents the finance assistance will initiate payment via EFT which shall be in done in batch.
- The batch will then be reviewed by the SA and the EFT will be approved for transmission from KCDF bank account.
- Upon transfer of the funds, the FA will record the payment in a EFT record book
- If the EFT is payment to a supplier, the contact person shall be informed of the payment
- If EFT payment is a grants disbursement an acknowledgement form shall be sent to the grantee which they shall sign and return the form

7.0 CASH RECEIPTS

7.1 Cash Receipt/Depositing Procedures

- It's the responsibility of the F.A to receive all cash pertaining to KCDF as an organization
- All moneys received should be receipted by the F.A using the pastel system or ***pre-numbered receipts***. The receipts should be in triplicate with the original being issued to the person paying; the second copy will be attached to the accounting documents and the third will be maintained in the cash receipt book. The receipts should then be posted in a numerical order in the cashbook.

- All money received for banking shall be banked at earliest time possible and in any event not later than the next day that the banks are open following the receipt of the money. However when the daily receipt are minimal the amount can be deferred until it reaches Ksh5, 000.
- Deposit will be made by filling in a deposit slip which will be presented to the bank. After which it will be filled numerically/sequentially in the Deposit slip file and a duplicate to be attached to the respective accounting record which will have the receipt that constituted the amount banked.
- Cash retained overnight should be stored in the KCDF safe. Deposit may be made more than once in a day when the receipts are high.
- No expenditure shall be made directly from the daily collections.

8.0 Handling of Cash

- Employees are advised not to carry more than Ks.100, 000.00 when traveling. In event this happens, the Finance Manager should be notified and Proper arrangements should be put in place to safeguard the person carrying the cash or organizational monies while in transit in order to comply with cash insurance requirements.
- No KCDF money should be left anywhere unattended to. Staff members holding organization money that would need storage over night should utilize the Finance Assistant safe for safe custody. Staff members disregarding this procedure will become personally liable.
- In the event of a robbery, staff members must act in such a way as to minimize risks to life even at the expense of the loss of KCDF assets.
- In the event of robbery or theft of money, staff concerned should immediately report to the police and thereafter notify management.

8.1 Penalty Notices and Penalty Fares (for travel)

Staff will not be reimbursed the costs of penalty notices (e.g. speeding fines) or penalty fares (e.g. fare dodging penalties) incurred on either public transport or whilst using a company, pool or private car on official business.

8.2 Interview Expenses –

KCDF will reimburse reasonable expenses to interviewees, both internal and external, who travel some distance and who wish to make a claim. Re-imbursement will be limited to:

- Bus fares or where the train is to be a used second class train fare will be reimbursed. Receipts or tickets must be provided
- Mileage expenses when traveling by car will only be reimbursed at AA rates when this proves to be a more cost-effective method of travel than public transport.
- Taxi fares that have been agreed upon with the recruiting officer in advance.
- Meals will not normally be reimbursed unless candidates are required either by travel circumstances or by the timing of the interview to attend a full day or overnight. All costs need to be supported by receipts and will have to be agreed upon and approved by the Head of Finance before incurred.
- Where necessary, bed and breakfast overnight accommodation will be arranged and paid for by KCDF.
- For non- Kenya based applicants, only economy airfares will be reimbursed. The ED will decide in advance of any travel costs being incurred whether the post being recruited to justifies reimbursement of flight costs. All airfares will only be reimbursed on presentation of a valid receipt or invoice and ticket stub.

8.3 Miscellaneous Expenses - Occasionally other expenses may be incurred whilst working on KCDF business. Costs may be reimbursed if supported by receipts. Line Managers should specifically approve on a line-by-line basis all claims for such miscellaneous reimbursements. Where there is any doubt about whether an expense will be reimbursed staff should obtain advice from the Finance Office before incurring the expenditure.

8.4 Board Members Expenditure – They will be reimbursed for:

Out of pocket travel whenever on KCDF business e.g. on retreats, field trip, overseas conferences etc at the approved KCDF out of pocket rates.

Mileage for board members who reside out of Nairobi above 60kms return distance covered. AA rates will be applied. However, a flat fee of shs 3,000 for the members within Nairobi city will apply.

Board Members will have their official expenses such as travel, Accommodation and food catered for by KCDF. As much as possible, Board members will work within the arrangements made by the staff. Where a Board member can't make it within the arrangements of travel, they will need to agree in advance with the secretariat the cost implications

9.0 PAYROL TRANSACTIONS

- The appointment letter shall clearly state the terms of monetary and non-monetary benefits payable to the employee. Copies of these letters shall be availed to the finance department.
- On the basis of a copy of the appointment letter the payroll shall be prepared by the Payroll Accountant and payments made not later than the 25th of each month with all statutory deductions effected.
- The payroll summary shall then be approved by the CEO after which an approved online transfer authorizing the bank to transfer money to individual bank a/c will be effected.
- Pay slips should be prepared for each staff showing details of calculations to their net pay. This should be issued on payment of salaries every month. They should be in duplicate whereby one copy remains with the employee and the other signed copy goes to the pay roll file.
- A payroll file shall be maintained that will contain the bank account numbers for each employee, a copy of the payroll summary and the pay slips for each month. In addition, information on statutory and any other personal deductions such as pension etc. shall also be filed in the individual files.

- The statutory deductions namely NSSF, PAYE, NHIF shall be deducted directly from the payroll and submitted no later than the 9th of the subsequent month.
- A journal voucher shall be passed to the salary control account to record various deductions from salaries.

Account entries for these deductions shall be as follows:

Dr: Staff Salary (total gross-admin)	xx	
Staff Salary (total gross-ECD)	xx	
Cr. Net Pay		xx
▪ PAYE		xx
▪ NSSF		xx
▪ NHIF		xx
▪ Staff Advances		xx
▪ SACCO Contributions		xx

- The credits automatically creates a liability of the amounts that will later have to be paid to third parties such as, Tax Authorities, the National Social Security fund and Savings and Credit Co-operative Society etc. To avoid these payments getting into arrears, arrangements should be made to pay them at the time of normal monthly salary payments.
- After payments, the Liability will be cleared by passing the following accounting entries:

Dr: Various deductions accounts	xx	
Cr: Bank Account		xx

- Staff salaries should be paid through bank transfers. Salary payments by cash are discouraged and each member of staff is encouraged to open up a bank account.

9.1 Salary Advances

- An employee may be paid a salary advance in part or in full upon application. Such payment however shall be at the CEO's discretion/approval but must not exceed the employee's one Month's net salary.
- Recovery in full will commence in the current month if the advance is granted before the 10th day of that month otherwise they start at the end of the following month.

- Accounting entries after advance is granted and will be as follows:

Dr:	Staff advances	xx	
	Cr:	Cash and Bank	xx

- On recovery accounting entries will be

Dr	Salary control-advance a/c	xx	
	Cr	staff advances	xx

10.0 CONTRACTS WITH THIRD PARTIES

General

- These guidelines should be followed in all cases where contracts are drawn up on behalf of KCDF. The guidelines deal with principles and do not attempt to draw up a standard contract because of the varied nature of contracts and the need for flexibility. It seeks to set up minimum standards that a contract drawn on behalf of KCDF should meet.
- The contracts referred to here include, but not limited to, training and workshops, supply of various goods that are not subject to purchase order procedures, research/feasibility studies, reviews and other consultancy services.

Parties to the Contract

The names and addresses of the parties to the contract should be clearly stated.

Responsibilities:

The responsibilities set up under the contract should be specific and unambiguous. Specifications and/or drawings and costs, if any, should be attached and referred to in the main body of the contract as appropriate. A time frame for completion should be specified.

Liabilities

The contract should contain a clause to the effect that any accidents or injuries sustained by the contracted party or his staff or a third party directly as a result of them carrying

out the contract shall be the contracted party's liability. The contracted party should indemnify KCDF in this respect if it becomes necessary.

Completion

Satisfactory completion of work will be determined by the CEO/PD.

Terms of Payment

The terms of payment must be stated in the contracts. A clause to the effect that withholding tax shall be incorporated and this will require a submission of Pin no before any initial payment is carried out. In contracts where satisfactory completion can only be judged after the passage of time, some of the contract price (retention) must be held back as a guarantee against quality and failure of completion. This retention should normally not be less than 10% of the contract sum. Once the final report has been received and accepted by the signatory to the contract, any outstanding balance should be paid upon submission of an invoice showing contract amount, amount paid and the outstanding balance.

It is conventional to make advance payments to contractors for work to begin. This amount will be negotiated with the contracted party to ensure that KCDF is safe guarded incase the contract was to fall through.

The contract must specifically state that the final payment will only be made on successful completion of the task.

Rights to Terminate

Notices of termination should be in writing. Termination will occur if the contracted party fails to observe his/her responsibilities within time given.

Any advance payment made to the third party should be reclaimed by KCDF.

Approval

The contract must be initialed on all the pages by an approved official representative of both parties to the contract. KCDF authorities in respect of contracts are laid out in section II 1.2. KCDF Officers must be sure that the signatory of the contracted party is a responsible person and (in the case of companies) that he/she can legally bind the company to the contract.

11.0 BUDGETING

11.1 Introduction

- The Financial Year normally starts with the process of obtaining approval to expend resources. This approval is granted through the Budget. The rule is that no expenditure shall be incurred unless it is approved in the annual budget or through a supplementary budget.
- In the event of an emergency, the Finance Committee of the Board shall be convened urgently by the Chief Executive Officer to authorize such expenditures as shall be deemed necessary and the matter later referred to the full Board for ratification.

11.2 General Policies

Financial resources will be budgeted and allocated according to the priority needs of the organization. However application of resources mobilized externally shall strictly be in accordance with donor funding conditions and per budgets and work plans approved by BOD.

11.3 Preparation of Annual Budgets

- The annual budget shall be prepared in the 3rd quarter of the year preceding the budget period.
- PO's are expected to submit their budget proposals to the Head of Finance for compilation and consolidation not later than 15th July. The PO's will ensure that any item that makes up at least 10% of the total budget is supported by proforma invoices from potential suppliers or comprehensive computations that are verifiable. This requirement will extend to cover hotel expenses for planned meetings.
- The comprehensive budget will be presented to the management committee for discussion after which the Head of Finance will prepare the final budget with the proposed amendments if any.
- This will later be presented to the Finance Committee for ratification and later to the full BOD for review and approval.
- The Final approved Budget will then filled.

11.4 Budget Control

- Expenditure will be controlled through the budgetary approval system. The Head of Finance will check to ensure that all expenditures to be incurred are within the approved budgets.
- The Head of Finance shall prepare quarterly financial reports showing all the main expense categories, the actual and budget amounts for each, and, the variances together with appropriate explanations for both positive and negative variances of that are more than 10%, in case of program variances explanations shall be provided by the relevant Programme Officers/Supervisors in writing.
- Management shall take such action as deemed necessary to remedy the situation.

12.0 GENERAL LEDGER

12.1 Responsibilities

It is the responsibility of the Head of Finance to ensure that:

- Only approved transactions/entries are posted to the General Ledger
- The nominal ledger is posted accurately and on timely basis
- The nominal ledger contains all the assets, liabilities, income and expenditure accounts maintained by the organization.
- The nominal ledger is closed off by the 10th day of the month succeeding to the month to which transactions relate for purposes of extracting balances.
- Periodic accounts i.e. income and expenditure, balance sheet and are prepared for consideration by management in a format that is easily readable

12.2 Structure of the General Ledger

The General Ledger is structured into 4 major components Assets, Liabilities, Expenses and Revenues.

ASSETS

Assets include all that is owned by KCDF. This includes cash, debtors and any other property. Account codes may be assigned to the following account categories if need be.

Non-Current Assets

Land

Buildings

Motor Vehicles

Furniture and Fittings

Computers

Office Equipment

Photocopiers

Others

Current Assets

Cash & Bank

Cash at Bank

Petty Cash

Debtors

Staff Loans

Staff advances

Other Debtors

Investments

Recording Assets

The normal balance of all assets is a debit, therefore to record a new asset we normally debit the assets account and to remove an asset we credit the account.

LIABILITIES

Liabilities include obligations for expenses which have been incurred but have not been paid, loans or any other claim by outside parties

The following are common liability accounts that can be used.

Salary Control a/c

NHIF Control A\C

NSSF Control A\C

PAYE Control A\C

Members' Sacco Shares A\C

Employee Provident Fund

Other Creditors

Trade Creditors

Accrued Liabilities

Short Term Loans

Bank Loans

Recording Liabilities

The normal balance of all liabilities is a credit; therefore to record a liability we credit the liability account, when the liability is settled the account is debited.

EXPENSE

Expense includes those costs relating to the general, overall direction and Administration of KCDF as whole as well as specific costs incurred in running the programmes.

Below are some of the accounts that can be used as Expenses account.

Various Expenses

Gross Salaries	Employers' NSSF
Electricity and water	Stationery & Office Supplies
Telephone & Fax & postage	Repairs and Maintenance
Professional and Audit fees	Bank Charges
Motor Vehicle expenses	Workshop expenses
Travel Expense	Evaluation & Monitoring
Training and Workshops	Insurance expenses

Recording Expense

Expense is best controlled at the source or origin since the direct authority or responsibility for the expenditures is at this level. Consequently, for control purposes/cost tracking expenses recording will be tied to a department/programme.

REVENUE

Income is classified as follows

- Donor Income
 - Donor income 1
 - Donor income 2
- Income from Local Sources e.g. interest income gain on foreign exchange
- Endowment income
 - Events
 - Fund builders
 - Board/Staff

Recording Income

The norm balance of income is a credit therefore to record an income we credit the income account.

12.2 GENERAL JOURNAL VOUCHER.

This will include those journals that go to update the general ledger directly and are not supported by a subsystem e.g. posting of opening balances.

Posting of Journal Vouchers

It is the responsibility of the GA under the Head of Finance supervision to ensure that the Journal Vouchers are posted and the general ledger updated accordingly. After all the journals have been posted the Head of Finance shall then extract a trial balance for analyzing.

Year – end Journals; reversals

This will be the responsibility of the Head of Finance assisted by the GA to ensure that all reversal journals are done at year-end.

13.0 NON CURRENT ASSETS POLICY&POLICY PROCEDURES

13.1 Definition

Non-Current Assets comprise of Land and buildings, motor vehicles, machinery and equipment, Computers and furniture and fittings with a useful life of more than one year and are in the ownership, possession and used for the furtherance of KCDF mission.

13.2 Acquisition of Non Current Asset

An approved Budget provides the authority to proceed with the acquisition of Non-Current Assets and related expenditures.

The Procurement of Non-Current Assets and contractual services will be through at least three competitive quotations to be selected by the procurement committee and approved by the CEO.

13.3 Policy on Non Current Asset

Non-Current Assets that are acquired through outright purchase from third parties shall be capitalized at values comprising their invoice amount plus incidental costs of

acquisition such as duties and taxes, freight charges, installation costs and any costs of substantial improvements incurred.

Non-Current Assets acquired through construction using own resources shall be capitalized at values that comprise the cost of the materials used (including transportation) and labor charges (both own and hired).

It shall be a policy for KCDF to capitalize all assets of the above categories with values of over Kshs. 10,000/= . Records for non capitalized assets (below 10,000/=) shall be kept in a separate register for control purposes by the Logistic Officer.

13.4 Non-Current Assets Register

KCDF shall maintain two separate Non-Current Assets Register one in an excel spreadsheet and the other in the system. The system one shall be maintained by the FA and the excel one by the logistic assistant. The two shall then be reconciled on quarterly basis.

Non-capitalized items (less than 10,000/=) in value to include mainly furniture and small office equipment like punching machines and dust bins etc.

The Assets Register shall contain the following information:

Asset category	Cost at acquisition
Asset Description	Asset Location
Asset serial number	Date of acquisition
Improvements	Annual Depreciation
Accumulated Depreciation	Net book value

Note: No depreciation is charged on non-capitalized assets.

13.5 Asset Code Structure

All Non-Current Assets of KCDF shall be assigned reference numbers for ease of identification and for control purposes. The assets code structure adopted will be the one shown below (ii) with some additions to it to indicate the specific asset reference as given below:

<u>Asset Reference No.</u>	<u>Asset Description</u>
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13.8 Non-Current Assets Inventory

Every one year, a physical count of KCDF's assets shall be done and reconciled to the Ledger balances. Any differences shall be investigated promptly.

13.9 Depreciation Policy

It is KCDF's policy to depreciate Non-Current Assets in accordance with the International Accounting Standard No.16 (IAS 16)

Depreciation shall be calculated on a straight line basis to write down the cost of each asset or the revalued amounts, to their net residual values of Kshs.1, 000/- over their estimated useful lives at the following rates:

• Buildings	4%
• Motor vehicles	25%
• Office equipment	12.5%
• Furniture & fittings	12.5%
• Computers	33 1/2%
• Plant and machinery	25%
• Land	Nil

Full depreciation is charged in the year of acquisition, but no depreciation shall be charged in the year of disposal. No depreciation is charged on the land but it will be amortized every 3 years.

13.10 Insurance

It is the responsibility of the HRM in collaboration with the Head of Finance to ensure that KCDF's assets are protected by insurance and sufficient insurance coverage is arranged. The selection of the insurance broker and the insurer will be done by the procurement committee subject to CEO'S approval .The insurance company's selected however must be duly licensed and financially sound.

This should include insurance against: Fire, Third Party and Accident.

14.0 FINANCIAL REPORTING

14.1 Management Accounts

Quarterly management accounts shall be prepared and presented to the Senior Management team by the Head of Finance by the 15th day of the month following the end of the quarter. The management accounts will include the income and expenditure statement that will show variances between the actual results and the budget. All variances in the range of over 10% must be explained on a qualitative report to be discussed in a management meeting.

14.2 Annual Financial Statements

In compliance with sound governance practices KCDF shall prepare and present the following audited annual financial statements to its members and relevant Development Partners:

- Management report
- Income and Expenditure
- Balance sheet
- Notes to the financial statements

15.0 AUDIT

An external audit will be performed annually or as may be requested by the BOD.

Appointing responsibility of an external Auditor shall be that of the finance and Audit Committee. The terms of reference will be agreed with the BOD prior to audit commencement.

The standard terms of reference will be but not limited to the following:

- Perform a review of all major financial systems and controls to ensure efficient and effective use of resources, accuracy of records, and security of assets and prevention of fraud.
- Review compliance with the financial manual
- Review compliance with standard accounting policies/law.

At the end of each audit exercise, the auditor will first submit the report to the CEO at least two weeks before the scheduled quarterly meeting of the Finance and Audit Committee outlining key findings and any recommendations.

A written audit report with management's response agreed and incorporated will then be submitted to the committee at least seven days before the scheduled meeting.

The finance department shall implement agreed audit recommendations after the committee has discussed the report.

Incompliance with good corporate governance there will be a rotation of auditors after every 3 years.

16.0 FRAUD

16.1 Definition Of Fraud

Fraud will be defined to include intentional misrepresentations of financial information by one or more individuals among management, employees or third parties. Fraud may involve manipulation, falsification, or alteration of records or documents, misappropriation of assets; suppression or omission of the effects transactions from records or document; recording of transaction without substance or misapplication of accounting policies with intentions to create personal gain.

The Management has the overall responsibility to ensure that the Organization is free from fraudulent activities by ensuring strong internal control systems have been established and provide environment that discourage fraudulent activities.

All suspected fraud cases must be reported immediately to the CEO without fail.

Examples of activities and transactions that may used to commit fraud include:

- Forging cheques, travelling expense vouchers, cash advance vouchers etc
- Creating fictitious travelling expense receipts.
- Colluding with third parties to offer services at exorbitant costs
- Failure to enter receipts in the cashbook
- Creating fictitious journal entries to write off amount of staff debt to the Foundation

- Increasing amount on a cheque after it has been signed
- Making cheque payable to a wrong payee
- Using vouchers to support double payments
- Paying for fictitious supplies
- Presenting receipts that are not complete or not for the region in which an activity is taking place or along the route where the activity.
- Presenting falsified seminar/workshop participants' refund forms.
- Collusion with a supplier to provide goods or services at exorbitant prices.
- Contracting a supplier to provide services or goods without due regard for tendering or procurement processes and without special approvals from the CEO as may be necessary.
- Paying of third parties monies without proper proof of services provided.

16.2 Investigations of Fraud

In the event that Legal Counsel is needed the CEO shall seek the BOD's approval to seek legal advice from the Trust's lawyers on how best to proceed on the intended investigation to avoid unnecessary counterproductive lawsuits.

Where an insurance cover exists involving misappropriated assets, the Head of Finance shall immediately report to the organization insurance company upon obtaining knowledge of the suspected fraud to ensure they are informed earlier enough as is usually required to avoid claims being voided.

16.3 Taking Action On Suspected Employees

Those suspected should be relieved from further opportunity for manipulation or destruction of records as means to evade proof or punishment. One or combination of the following actions may be taken against suspected employees.

- Dismissal
- Retain in present position but under strict surveillance
- Continue salary or wages during investigations.

- Exercise a lot of restraint: Don't accuse anyone of theft before investigations
- Don't release any report containing implication of dishonesty before clearance by legal counsel.

16.4 Appointing the Investigator

The external auditor security officer or private investigators may be appointed to carry out a fraud investigation

17.0 FILING SYSTEM

Filing will be done by the officer in charge for each file or as may be appropriately delegated.

17.1 FILES NAMES AND INDEXING

Files will be named by reference to the subject and will be in alphabetical order or reference number order. The following is a guide to files to be maintained by the organization.

17.1.1 Donor Funds File

A box file with partitions separating each donor will be kept within which all correspondences, pledges, covering letters for remitted funds and related documents should be filed.

17.1.2 Cheque payment vouchers file

This will be used to file all cheque payment vouchers together with relevant invoices, fee notes or payment request notes. Payment vouchers will be serially numbered and consequently filed.

17.1.3 Petty cash vouchers file

To be used for filing all petty cash vouchers together with all the supporting documents. Petty cash vouchers will be serially numbered and consequentially filed.

17.1.4 Bank statement file

For filing all bank statements and any correspondence to/from the bank. To be filed chronologically filed-according to the date of received.

17.1.5 Fixed term deposits file

For filing all fixed deposit agreement certificates and correspondence pertaining to fixing term deposits. To be chronologically filed.

17.1.6 Budgets proposal file

For filing all planned budget proposals for each financial year and any amendments made.

17.1.7 Financial reports files

For filing all Donor financial reports for each period including any interim reports sent out to Donors.

17.1.8 Staff personal files

Individual staff files should be kept within which his/her application, employment agreement and any other issues applicable to individual staff-members should be filed.

17.1.9 Confidential files

All confidential files will be kept in the CEO's office and requests for these files will be made to the CEO who will authorize its removal.

18.0 RETENTION POLICY

All documents will be stored for a period of Seven years after which they will be classified as active or non-active.

All non-active files will be kept for a total period of Ten years before they are stored elsewhere in the archives or destroyed in accordance with the relevant law.

19.0 COST SHARING POLICY

This clause recognized that KCDF has multi-funders and therefore paramount to develop a criterion to fairly and equitably, allocate the overhead costs. These overhead costs are the ones which cannot be specifically identified as having been incurred by one single project. The costs include rent, service charge (security, cleaning, electricity, water and such like costs), and personnel who belong to the administration department, whose support is critical to the programme.

Rent:

The allocation of building space will be guided by the market rent of the building. This is the actual rent paid by KCDF OR as derived by professional property valuer; and allocated in proportion square area occupied by the project staff, with proportion and reasonable allocation of the common areas.

Service Charge:

The service charge will be computed based on actual monthly costs, then allocated to all programmes with intention to cover all service charge costs.

Personnel

The Finance and Administration staff who supports the entire programme shall maintain time sheets to establish, to the best of their knowledge the time used for any particular programme or project. The best judgment shall be used and where time cannot be specifically allocated to any project, then the same should be indicated in the time sheets.

Allocation Method:

All identifiable costs will be charged to specific programmes or used as cost share where the agreement stipulates KCDF makes a contribution to the programme. Incase KCDF has outstanding overheads which are not identifiable to specific programme/projects and not budget provision from any programme to cover the same, the following criteria will be used to allocated the costs:

- i. Use a budget ratio to have the costs absorbed
- ii. Source for undesignated funds to carter for the deficit
- iii. Decide on the best equitable method, consultation with relevant programmes on how to meet the deficit.

20.0 PROJECT CLOSEOUT PROCEDURES

KCDF has various project partners with varied agreements. The terms of execution, entry and the procedure of exit of closeout should be spelt out in each agreement or memorandum

Annexes

Local Expenses Claim Form

Medical Expenses Claim Form

Petty Cash Claim Form

Petty Cash Reimbursement Schedule

