# FARMERS CHOICE REGULATED NON-WITHDRAWABLE DEPOSIT TAKING SACCO LTD

# FINANCE AND ACCOUNTING POLICY

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## LIST OF ABBREVIATIONS

Cooperative/society/SACCO – FARMERS CHOICESACCO Society Limited

Board/ Management committee- Elected office bearers of FARMERS CHOICESACCO Society Limited

| | |
|---|---|
| Officer | Has the meaning assigned to it in the Cooperative Societies Act and includes board /committee member and staff |
| HR | Human Resource |
| Manual | The Finance and Accounting procedures manual |
| HOF | Accountant/Head of Finance |
| AP | Accounts Payable |
| CEO | Chief Executive Officer |
| GAAP | Generally Accepted Accounting Principles |
| NHIF | National Hospital Insurance Fund |
| NPV | Net Present Value |
| NSSF | National Social Security Fund |
| UBI | Unrelated Business Income |

## 1.0 INTRODUCTION

This manual has been issued by the Board of Directors and adherence to this manual is mandatory to staff and board members. This manual outlines the financial management, accounting and financial control procedures of the society. They are designed to ensure:

- Principles of prudent financial management are followed in regard to handling of the organization's resources;
- Books of accounts are maintained in accordance with international financial reporting standards.
- Lines and levels of authority are clearly defined, communicated and understood;
- Transactions are correctly recorded in the amount of detail required;
- The organization's assets and income are accounted for and controlled;
- The organization's expenditure and liabilities are incurred only when necessary and in accordance with predetermined estimates;
- The organization's processes are structured in accordance with stipulated guidelines in this manual;
- The procurement of goods and services is carried out under the stipulated regulations and policies; and

There are clear levels of authority

### 1.1 OBJECTIVES

The main objectives of this manual are to ensure that:

i. Financial reports and accounting records as prepared and maintained reflect the financial effectiveness of the Sacco activities and programs.
ii. Standardize Finance and accounting activities are Carried out with consistency.
iii. Principles of prudent financial management are followed within the Society in regard to handling of the organization's resources;
iv. Financial records are maintained in accordance with international financial reporting standards and Generally Accepted Accounting Principles (GAAP)
v. To provide a guidance to all staff in Accounts and Finance for Smooth execution of their duties
vi. Financial management roles and responsibilities of the various officers are clearly defined, understood and adhered to;
vii. Segregation of duties is well documented and adhered to;

viii. Transactions are properly identified and adequately, recorded and supported to the amount of detail required;

ix. Only properly approved and authorized transactions are paid for and budgetary approval is not exceeded;

x. Accurate, reliable and complete financial information and recording takes place;

xi. Financial and management reporting is timely and accurate;

xii. The organization's assets and income are accounted for and controlled;

xiii. The organization's expenditure and liabilities are incurred only when necessary and in accordance with predetermined estimates;

xiv. There are clear levels of authority in the procurement procedures.

## 1.5 GENERAL PRINCIPLES OF MANAGING FINANCES

Officers of the society shall ensure that:

i. The accounting policies are applied consistently and where changes are introduced, the effect on reported results will be disclosed

ii. Transactions are handled in a consistent manner.

iii. Funds are handled properly and honestly;

iv. Funds are spent responsibly and in accordance with co-operative programs and regulations and not for personal gain;

v. Funds are utilized economically and efficiently to deliver programs that effectively meet the society's goals and objectives

vi. Sufficient documentation must be in place to support the use of funds. They must be organized, retained and complete enough to support an audit

vii. Use of funds supports prompt, effective and consistent implementation of the co-operative policies and standards;

viii. There is openness, fairness and transparency in the conduct of the cooperative society's financial affairs and activities;

ix. Asset verification is conducted every 3-5 years by an independent party
x. Recognition and protection of stakeholder rights is upheld
xi. An inclusive approach based on democratic ideals, legitimate representation and participation is upheld.

The policies and procedures contained in this manual are aimed at ensuring that these objectives are achieved through good governance practices.

## 1.6 UPDATING THE FINANCE POLICY

The board of directors has the responsibility of administering these policies and shall be responsible for ensuring that financial policies are developed and/or updated in a timely manner, a formal review of policies will be conducted at least annually. This review will be documented in the policy manual by adding a review date or revision date to the introductory section of each policy. The Chief Executive Officer (CEO) will ensure that updates are done as necessary and when the need arises

## 1.7 USERS OF THE FINANCIAL POLICIES AND PROCEDURES MANUAL

The manual is intended to be used as a reference tool by the employees, supervisory committee and board of the society while carrying out financial management tasks and in training and induction of new staff. Staff members will also use the policy when performing their roles of decision making and control in allocation and use of resources for example money, time, employees and equipment among others. The manual will also assist the public, investors, auditors, and others to evaluate how effective management is in achieving the goals of the society.

It is the responsibility of every employee to follow the stated policy in all undertakings.

## 1.8 FINANCIAL POLICIES OWNERSHIP AND ADMINISTRATION

The responsibility for the development, implementation and periodical review of the adequacy of financial controls is vested on the board. This means being accountable for the appropriate:

- Financial management controls.
- Promotion of ethical culture in the administration of finances
- Delegation of signing authorities;
- Classification of accounts;
- Accounting of financial transactions;
- Preparation of budgetary estimates; and
- Establishment of reporting, budgetary control and financial systems
- Responsible for the general oversight of the accounting functions

## 1.9 REGULATIONS AND POLICIES

Some aspects of financial regulations that govern co-operative societies are found in their by-laws, the Co-operative Societies Act, the SACCO Societies Act, and the SACCO Societies Regulations. The society shall comply with the provision of those laws and any other relevant Acts, rules and regulations.

# 2.0 FINANCIAL REGULATIONS AND POLICIES

## 2.1 FINANCIAL POLICIES

The society policies must ensure that:

- Assignment of authority for necessary and regular financial actions and decisions, which may include delegation of some authority to staff leaders
- Assets and income are properly accounted for and protected.
- Financial risks are identified, monitored and sufficiently mitigated.
- Expenditures are within limits approved by the AGM;
- The management focus is on outcomes, achieving service plans and goals, reporting performance and being accountable for results;

- Members ratify all actions taken when extraordinary circumstances cause a vote in the budget to be overspent through a general meeting.
- There is clear responsibility for maintaining accurate financial records
- Members are informed when a proposed policy or operational change has a significant financial implication
- Clear policy statement on conflicts of interest or insider transactions

## 2.2 SIGNIFICANT ACCOUNTING POLICIES

The society shall observe the international financial reporting standards and co-operative accounting best practice.
The following accounting policies shall apply:

### 2.2.1 Historical Cost Basis

The financial statements shall be prepared on the historical cost basis of accounting;

### 2.2.2 Accrual Accounting

Revenue will be recognized when earned and expenses when incurred even though cash may not have been received or payment made.

### 2.2.3 Consistent Accounting

Consistent accounting methods will be applied and when changes are introduced, the change and the effect on reported results shall be disclosed in accordance with Generally Accepted Accounting Principles (GAAP).

### 2.2.4 Foreign Currency Transactions

Accounts of the Society will be maintained in Kenya shillings. Transactions denominated in foreign currency will be converted into Kenya shillings at the market exchange rate prevailing at the date of each transaction. On the balance sheet date, balances denominated in foreign currency shall be translated using the rate ruling on that date.

### 2.2.5 Property, Plant and Equipment

Property, plant and equipment shall include all tangible assets with a life span of three years or more and having a minimum value, either individually or collectively, set by the board.

All categories of property, plant and equipment will initially be recorded at cost. Buildings will subsequently be recorded at market value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment will be stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment will be capitalized, inventoried and controlled individually by assigning tag numbers and maintaining a detailed property, plant and equipment register. Periodically the co-operative will carry out physical audits on all its property, plant and equipment.

#### 2.2.6 Depreciation

Depreciation will be provided for property, plant and equipment on a straight-line basis. This will allocate the cost of the property, plant and equipment uniformly over its expected useful life. The following rates will be applicable:

| | | |
|---|---|---|
| Computer software | - | 30% |
| Computers & accessories | - | 30% |
| Furniture and fittings | - | 12.5% |
| Cabinets | | 10% |
| Motor vehicles | - | 25% |
| Land and buildings | - | 0% |

#### 2.2.7 Stocks and Stores (Inventories) Valuation and Control

Stocks will be valued at the lower of cost or net realizable value. Cost will comprise expenditure incurred on acquisition of the stock items. Items in stores will be controlled through the use of stock control ledger

#### 2.2.8 Revenue Recognition

Revenue will be recognized to the extent that the economic benefits expected to flow to the Society can be reliably measured. The following specific recognition criteria must be met before revenue recognized.

**Interest income**: Interest charged on member loans will be recognized once it is realized and earned and in accordance with Financial Reporting Standard number 9

(IFRS9) and SASRA's Regulations for Non-Deposit Taking SACCOs. For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income will be recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

**Fee and Commission income**: Fees and commission income shall be recognized on an accrual basis and at the point of recovery.

**Grants and Donations**: Grants and donations shall be recognized once the funds are received by the Society.

#### 2.2.9 Outstanding Payments to suppliers/Creditors

Outstanding payments to suppliers and service providers shall be recognized on an accrual basis and at nominal value.

#### 2.2.10 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

#### 2.2.11 Finance Leases

Leases where the lessor transfers substantially all the risks and benefits of ownership of the asset are classified as finance leases. The assets shall be capitalized and recognized under the Society balance sheet. A lease finance liability account shall be opened in regard to the said assets. The lease obligation will thereafter be treated in accordance with IAS 17 as follows:

1. Assets will be depreciated on a straight-line basis in accordance with the Society's depreciation rates.
2. Lease payments relating to interest shall be recognized as expenses in the income statement.

#### 2.2.12 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings.

### 2.2.13 Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash and bank balances shall be recognized at nominal value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Financial assets with maturities of 3 months or less shall be accounted for in accordance with IFRS9.

### 2.2.14 Intangible Assets

Intangible assets acquired separately shall be measured on initial recognition at cost. Following initial recognition, intangible assets shall be carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets shall be derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset will be measured as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss when the asset is derecognized.

## 3.0 BUDGET PREPARATION PROCEDURES

### 3.1 PURPOSE

i. The society shall prepare the annual budget/estimates of income and expenses at least 3 months before the end of the financial year.

ii. Budgets and estimates will be subjected to the approval of the general meeting before expenses are incurred.

iii. The annual budget should take cognizance of the activities in the strategic plan which identifies the proposed sources of funds to finance the society's programs and activities, as well as the expenditures.

iv. When approved by the general meeting, the annual budget becomes the society's authorization to incur expenditure and to collect and apply the revenues to the appropriate activities

### 3.2 REVENUE/EXPENDITURE ESTIMATES

1. The procedures for preparing revenue/expenditure estimates include preparation of estimates by the various costs/revenue center heads in accordance with targets determined by the strategic plan. Key financial targets are set each financial year including:
   i. The level of revenue surplus to be generated and achieved.
   ii. General reserves to be maintained.
   iii. Cash generation level from operations
   iv. Liquidity range.
   v. Debt gearing and interest cover.
2. The proposed budgets are deliberated in a budget meeting attended by the Accountant/Finance Officer and the CEO
3. The estimates are reviewed and approved by the chief executive officer and the board of directors before being forwarded to members at the general meeting.
4. The approved budget is closely monitored and evaluated to control resources allocated to different activities and ensure compliance to budget restrictions.
5. Budget holders are tasked to ensure that the Society follows whatever budget is laid out for them. They are responsible for the efficient and effective allocation and use of resources, for monitoring their expenditure against forecast, and for managing within the resources allocated to them. They must forewarn the Chief Executive and/or the Board Committee responsible for finance of any financial problems with the budget under their control.
6. Any over or under spending shall be rolled over into subsequent years' budget.
7. Authority for any significant variances should be sought and actions to correct overspending in subsequent financial periods agreed upon.
8. As a minimum, members of staff will be required to break down their targets into time and activity schedules with the detailed budget for the financial year (i.e. annual work plans and budgets). The management is will ensure the detailed annual work plans and budgets are submitted on a

timely basis and duly approved by the Board of Directors.

9. The master budget shall comprise of the capital, operating and cash components. The capital budget accounts for approximately 8 to 12%, while the operating budget makes up the rest of the total.
10. The annual budget shall be prepared by 1st October of the preceding financial year.
11. Project budgets will be prepared for each project in place within the organization and linked to budgets for individual grants received in respect of each project.
12. The preparation of the annual budget/ project budgets is co- ordinated by the Accountant/Accountant/Head of Finance, is examined and amended as required by the CEO and presented to the board for approval. The budget shall be presented to the Annual General Meeting for approval.
13. Regular management reports will be prepared and forwarded to the CEO and board in respect of the master budget and each individual project. These reports will give details of total actual spend to date for each budget category and cost center, the agreed budget for the period to date and the agreed budget for the entire financial year.
14. The organizational budget is based on cost centers which reflect the structure of Society's activity and projects based on current strategic and operational plans.
15. During the preparation and monitoring of the annual budget;
    - Planning and assessment of all organizational activity in the forthcoming period in question is carried out on an on-going basis.
    - Each Head of Department shall collate all activities within their jurisdiction and prepare a departmental budget.
    - The Accountant/Accountant/Head of Finance shall consolidate all departmental budgets and prepare a draft master budget.
    - The draft master budget is presented to the CEO and Board for review and approval. Any agreed amendments are incorporated into a revised budget.
    - The revised master budget is presented to the AGM for approval. Once approved, the budget cannot be altered without the approval of the

AGM.

- The Society shall have quarterly budget reviews. Ad hoc reviews can be done whenever the Society falls 20% behind budget.
- The Accountant/Head of Finance shall prepare management reports based on the approved budget and actual income and expenditure. These reports will be presented to the CEO and Board for review.

#### 3.2.1 Budget Restrictions

i. The budget shall reflect any restrictions imposed on the use of funds.

ii. The budgets of external restricted funds (grant and contract accounts) are based upon agreements with the sponsor or agency.

iii. Restrictions imposed by the sponsor usually include a period of time during which funds must be spent or obligated, object of appropriation budget restrictions, the specific project or purpose for which the funds must be expended and sponsor regulations.

iv. All the approved expenditure/ items shall be recorded into a vote book.

#### 3.2.2 Vote Book

1. A vote book is a record of various votes and shows at any time the amount spent and available balance.
2. The society shall maintain an up to date vote book.
3. All payment vouchers must be entered in the vote book before they are submitted for payment.
4. The vote book must show:
   i. The date of entry.
   ii. Particulars of expenditure.
   iii. The amount expended.
   iv. The total expenditure against the vote; and
   v. The balance of funds available for expenditure after taking into account any known commitment.

### 3.3 BUDGETARY CONTROL

1. Budgetary control should be maintained
2. Budgetary control is achieved through production of management accounts and reviewing actual performance against the set targets in a

process referred to as variance analysis.

3. By timely spotting of unfavorable variances, managers are able to take control actions to reduce costs or increase sales revenue.

### 3.4 Supplementary budgets

**i.** The Society may, by July of every year, review the existing budget and produce a supplementary one to fit circumstances.

Ii. Supplementary budget shall be prepared by the Accountant in consultation with the Treasurer and referred BOD for recommendations.

iii. Budget adoption shall be by BOD approval in a full board meeting only. The same shall be referred to the General Meeting.

## 4.0 REVENUE RECOGNITION

### 4.1 POLICY STATEMENT

Revenues must be recognized on the accrual basis, in accordance with generally accepted accounting principles (GAAP) and other regulatory requirements. The policy also requires that revenues be recorded and classified properly.

### 4.2 REASON FOR POLICY

The reasons for revenue recognition policy are:

- To ensure adherence to GAAP and other regulatory requirements.
- To promote consistent accounting treatment
- To ensure the operating results of the society are not misstated as a result of revenues not being recorded or being recorded improperly.
- Prevent revenue leakage and facilitate income reconciliation.

### 4.3 RESPONSIBILITIES

The responsibility for ensuring that the policy is implemented as intended lies on the following:

a. The CEO is responsible for ensuring that employees abide by this policy and the accompanying procedures.

b. The Accountant/Accountant/Head of Finance is responsible for implementing the policy and procedures, principally by ensuring that revenues are both recognized on an accrual basis and recorded properly.

The Accountant/Head of Finance retains the responsibility for maintaining this policy and for answering questions regarding it.

c. The other officers concerned must provide accurate information of receipts

d. The Accountant/Head of Finance is responsible for ensuring that the SACCO "unrelated business income" (UB) is properly reported.

## 4.4 RULES FOR REVENUE RECOGNITION AND RECORDING

The rules for revenue recognition include:

### 4.4.1 Considerations Associated with Revenues

1. Revenues arise from provision of lending and other financial services by the society to its members. The society shall also generate revenue from investments such as interest on financial assets and rental income from properties.
2. The main sources of revenue shall be interest as well as fees and commission income.
3. Revenue-generating activity should be consistent with the society's mission and the overall co-operative sector reform strategies. Revenue that is considered outside of the core business of the co-operative mission is treated as extra ordinary income and should be appropriately classified.

### 4.4.2 Basic Rules for Revenue Recognition

1. The society requires that revenues be recognized on the accrual basis, in accordance with GAAP and other regulatory requirements.
2. The accrual basis of accounting recognizes revenues when they are earned, not necessarily when payment is received. Revenues are generally earned when services are performed or payment of interest falls due. However, the recognition of certain types of revenue, such as royalty or rights revenues may be conditional upon other events.
3. Revenues and expenses shall be recognized in the period in which they are earned and incurred, respectively, so that they are properly "matched" and operations are therefore fairly stated.
4. Four criteria exist to determine whether revenue should be

recognized. All four criteria must be met for revenue to be considered earned and therefore recognized:

i. Persuasive evidence of an arrangement (i.e. sufficient documentation) exists; Delivery has occurred or services have been rendered;

ii. The price is fixed or determinable (i.e. the price is not conditional upon a future event);

iii. Collectability is reasonably assured (i.e. the customer is expected to pay for the services or honor their repayment obligation)

iv. Certain revenue-generating service agreements or subcontract agreements may contain milestones (i.e. significant dates) to which payments are tied. In these cases, the Accountant/Head of Finance will give direction on the timing of recognizing the related revenues.

**4.4.3 Revenue recognition on an accrual basis**

a) Loan accounts shall be recorded as assets. Interest shall accrue and be recognized on a monthly basis. When payment is received, the interest shall be recognized and recorded in the interest earned account. Loan accounts shall evaluate for any uncertainty associated with their collection (i.e. collectability). If uncertainty regarding collectability exists, a provision for bad and doubtful debts shall be made in accordance with IFRS 9 and SASRA Regulations. Loans shall be written off in accordance with IFRS 9 and SASRA Regulations and once a board decision has been made that they are uncollectible.

b) Revenue from investment in financial assets shall be recognized once the issuer's obligation to pay interest crystalizes. Provisions for counter-party default shall be made in accordance with IFRS 9.

c) Revenue from rental and other income shall be made once the tenant's obligation falls due. Outstanding rent payments shall be recognized as assets. When payments are received, the outstanding rent account shall be reduced. Rental income shall be evaluated for any uncertainty associated with their collection (i.e. collectability). If uncertainty regarding collectability exists, a provision for bad and doubtful debts shall be made in accordance with intangible assets amortization policy.

d) Fee and commission income shall be recovered and recognized at the point of service provision. Where a client is unable to pay for a service at the point of delivery, the request for services shall be declined.

#### 4.4.4 Basic Rules for Accurate Recording of Revenues

Revenues must be recorded within the account code that most accurately reflects the nature of the underlying transaction. It is important that revenues be coded properly to ensure complete and accurate co-operative financial statements, as well as complete and accurate department-level reporting.

#### 4.4.5 Gift Revenue Recognition

1. Unconditional gifts and non-governmental grants are recognized as revenue immediately upon receipt.
2. Questions regarding the recognition of gift revenue should be directed to the Accountant/Head of Finance.
3. Government and development partners grant (revenue) are given for specific projects/purposes. These revenues are earned and recognized as the related sponsored project expenses are incurred. Such revenues are automatically adjusted via general ledger allocations to record the appropriate receivable or deferral balances on the balance sheet as the revenues are earned.
4. Unconditional grants from development partners are recognized similarly to gifts (i.e. immediately upon receipt). Questions regarding the recognition of Government and NGOs revenue should be directed to the Accountant/Head of Finance.

#### 4.4.6 Investment Income Recognition

Investment income and other investment-related revenue are generally recognized as earned. The society investment accounting policy contains further information on the accounting for investment-related revenue.

#### 4.4.7 Providing Services to other Departments

Revenues generated by providing services to other internal departments must be timely billed within the correct fiscal year.

## 4.5 TIMING OF PROCESSING RECEIPTS

The Accountant/Head of Finance is responsible for processing and accounting for cash receipts on a timely basis throughout the year. All cash receipts must be processed and deposited immediately. Staff members involved in cash, cheque, electronic and other receipts shall ensure that:

- All cash received is promptly and accurately accounted for and recorded;
- All vouchers and supporting documentation for cash receipts are properly stamped.
- There is adequate segregation of cash handling roles and responsibilities;
- Controls in cash handling such as limits and dual custody amongst others are observed.
- All cash transactions are properly recorded in the General Ledger system; and
- Cash is reconciled and accounted for daily.

- Cheque receipts are properly recorded and forwarded to Accountant/Head of Finance before close of day.

### 4.5.1 Miscellaneous Income

Miscellaneous income account code shall generally be used only if a more specific account code is not available. Recording transactions using specific account codes provides more meaningful and accurate financial reporting. The Accountant/Head of Finance is expected to review activity in this account code periodically to make sure that it has been classified properly.

### 4.5.2 Limit on Recording Non-Gift Revenue to Restricted Funds

The board should set a limit for non-gift revenue (excluding income on gift funds and appropriate transfers) in restricted donor funds. Non-gift income amounts that exceed the set limit in one restricted fund must be transferred to another unrestricted undesignated or unrestricted designated fund.

#### 4.5.3 Non-Revenue Cash Receipts

1. Cash receipts associated with debt issuances, loan principal repayments, investment liquidations, funds held in trust for others or expense credits must not be accounted for as revenues.
2. Debt proceeds are recorded as a liability, which is reduced as debt payments are made.
3. Loan principal repayment proceeds shall be accounted for as cash receipts and a reduction in an asset account.
4. Investment liquidations offset the investment assets on the balance sheet. Funds held in trust for others are recorded as a liability, which is reduced as payments are made to the beneficiary.
5. Receipts that offset or reduce expense items are considered credits to expenses. Expense credits include purchase discounts; rebates and allowances; recoveries or indemnities on losses; and adjustments for overpayments or erroneous charges. Unless a specific account code exists to record the expense credits, such receipts must be recorded as credits to the original expense coding, (i.e. coding used to initially record the related expense or payment), not as income.

#### 4.5.4 Other Cash Receipts

Cash receipts may arise that are not related to existing receivables, such as those associated with commissions, conference fees or other types of income. Once it is determined that there is no outstanding receivable associated with the cash receipt, the Accountant/Head of Finance should evaluate the revenues for deferral (i.e. if the revenue has not yet been earned). If it is determined that the revenue has been earned, the cash receipt is promptly accounted for as revenue.

#### 4.5.5 Revenue Offsets

Amounts that offset or reduce revenue items are considered debits or charges to revenue. Revenue offsets include interest rebates, discounts and allowances provided for services to customers; and adjustments for overpayments made by customers or erroneous amounts charged to customers.

Unless a specific account code exists to record income offsets, they must be recorded as debits/charges to the original income coding, (i.e. the coding used to initially record the related income), not as expenses or debits to "Miscellaneous Income).'

Revenue off-sets must be authorized by the CEO before being recorded in the ledger. Rights for posting revenue rebates in the General Ledger shall be vested in the Accountant/Head of Finance and the Accountant alone. Accountant/Head of Finance shall prepare a report on all revenue off-sets on a quarterly basis and present the same to the Board for review and consideration.

### 4.6 DOCUMENTATION OF REVENUE TRANSACTIONS

The accounting staff must maintain documentation supporting revenue transactions that details:

a. The nature of services provided;
b. Account coding to credit;
c. The date the services were provided:
d. Authorization from the customer ordering the services; and Customer contact information.

It is recommended that departments provide a copy of this documentation to the customer, and they must locally retain the original documentation



## 5.0 ACCOUNTS RECEIVABLE

### 5.1 REASON FOR POLICY

This policy is concerned with the management of receivables and is intended to ensure that funds held as receivables are recovered as soon as possible and within acceptable time limit. Receivables are categorized into loan receivables that arise from members who borrow from the society and other receivables representing miscellaneous cash advances made to-staff members.

### 5.2 MANAGING RECEIVABLES

1. The cash flow of the society can be improved significantly by observing good management of its receivables. The objectives being to minimize the receivable balance and thereby realize:

- Provide cash flows necessary to run society operations;
- Reduction in losses incurred on receivables; and
- Reduction in personnel costs due t monitoring and debt collection.

2. An effective way of reducing the receivables balance is through faster collection of amounts owed by members/customers. To achieve this the society needs to be able to determine:

- The society debtors
- The amount owed;
- Period the amount has been outstanding
- The reason why it is owed:

3. The society should be wary of defaulters since they can cripple the operations and erode profits.
4. Receivables management is outlined under the Credit Policy and shall include but not be limited to:

a. Loan monitoring and recovery.
b. Using the Risk Management function to mitigate credit risk.
c. Compliance with credit policy.
d. Using guarantors in loan recovery.
e. Engaging external loan recovery agents.
f. Enhancing lending limits.

### 5.3 BAD DEBTS PROVISIONS AND WRITE -OFFS

a) Provisions for bad and doubtful debts as well as write-offs shall be done in accordance with SASRA Regulations, IFRS 9 and the Credit Policy.

#### 5.3.1 Documentation

The society should keep proper documentation that supports the balance in the doubtful accounts. Such support should include efforts in collection of the receivable and reasons for failure to collect.

#### 5.3.2 General Ledger Adjustment

The balance in the doubtful account listing should be compared with the general ledger balance and necessary adjustments done at the end of each month. Any adjustments to the ledger should be supported by sufficient documentation for audit purposes.

#### 5.3.4 Recovery of Bad Debts Written Off

Payments received after write off should be recorded to bad debts recovered account and treated as other income.

### 5.4 VERIFICATION OF RECEIVABLES BALANCES

Loan balance confirmation shall be done in accordance with the Credit policy.

## 6.0 EXPENSE RECOGNITION

### 6.1 POLICY STATEMENT

The society requires that;

1. Expenses to be recognized on the accrual basis, in accordance with generally accepted accounting principles (GAAP). The accrual basis of accounting recognizes expenses when they are incurred, whether or not an invoice has been received and/or payment has been made.
2. Expenses be recorded and classified properly, both naturally (i.e. in the Most accurate account code) and functionally (i.e. in an activity with the most accurate classification).

### 6.2 RESPONSIBILITIES

1. The Accountant/Head of Finance is charged with the responsibility of ensuring that the society employees adhere to this policy and the accompanying procedures.
2. Staff will be responsible for implementing the policy and procedures, principally by ensuring that expenses are both recognized on an accrual basis and recorded properly.



### 6.3 CONSIDERATIONS ASSOCIATED WITH EXPENSES

Operating expenses must be reasonable in nature and amount. They may not exceed an amount that would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.

### 6.4. BASIC RULES FOR EXPENSE RECOGNITION

Revenues and expenses must both be recognized in the period in which they are earned and incurred, respectively, so that they are "matched" and operations are therefore fairly stated.

**6.5. BASIC RULES FOR ACCURATE RECORDING OF EXPENSES**

1. Expenses must be recorded within the account code that most accurately reflects the nature of the underlying transaction. The expense account codes correspond to natural expense classifications.
2. It is important that expenses be coded properly to ensure complete and accurate annual financial statements, as well as complete and accurate department-level reporting of actual spending.

**6.6 EXPENSE CLASSIFICATIONS**

The Society shall classify expenses using a blend between natural and functional classifications. Natural classification refers to grouping and recording based on the economic benefits received in incurring the expenses while functional expenses refers to grouping and recording based on nature of activities or the business units under which they were incurred:

A. The natural expense categories include but are not limited to;
   1. Salaries and wages – compensation paid to employees;
   2. Employee benefits – fringe benefits for employees;
   3. Supplies and non-capitalized equipment purchases acquired and used in the normal course of business;
   4. Space and occupancy:
      - Improvements, repairs and maintenance;
      - Space operations costs, including rent;
      - Interest expense on property, plant and equipment debt – payments for the use of money loaned to the society (Note: principal payments are not classified as expenses)
      - Utilities;

5. Depreciation of property, plant and equipment – the allocation of costs of property, plant and equipment over the lives of the assets;
6. Other expenses:
   - Overhead;
   - Telephone;

- Publishing;
- Interest on working capital;
- Travel and entertainment;
- Insurance;
- Purchased services;
- Subcontracted services;
- Other Costs of goods sold represent the costs of inventories sold to customers.

B. The Functional expense categories include but are not limited to;

1. Marketing and promotional expenses- It shall be the policy of the Sacco to set aside funds for marketing purposes and business development activities as per their annual business plan and Strategic plans.
2. Branch or departmental specific expenses.
3. *Administration* — These are costs incurred for the management and administration of the society non- core departments;
4. *Operation and maintenance expenses* — These are costs associated with the administration, supervision, operation, maintenance, preservation and protection of the society's property, plant and equipment;
5. *Sponsored projects administration* — costs incurred primarily for the management and administration of government and non- government sponsored projects;
6. *Depreciation and use allowances* — the allocation of costs of the society's property, plant and equipment over the useful lives of the assets;
7. *Interest* — interest on debt associated with buildings, equipment and capital improvements; and
8. *Fringe benefits* — expenses incurred to administer and provide employee benefits, such as health plans and pension benefits

## 6.7 MISCELLANEOUS EXPENSES

Miscellaneous expenses should generally be used only if a more specific account code is not available.

## 6.8 EXPENSE CREDITS

Receipts that offset or reduce expense items are considered credits to expenses, Expense credits include purchase discounts; rebates and allowances; recoveries or indemnities on losses, reduction on loan provisions upon recovery of written-off loans; and adjustments for overpayments or erroneous charges. Unless a specific account code exists to record such expense credits, they must be recorded as credits to the original expense coding, (i.e. the coding used to initially record the expense or payment that is being reimbursed), not as income

## 6.9 EXPENSE MANAGEMENT

1. All expense authorities must be clearly assigned, properly approved and delegation instruments regularly updated;
2. Only the approved officers shall be delegated expense authority and must be held accountable for exercising that authority;
3. Expenses have to be a proper charge against an appropriation over which they have been delegated authority;
   - Not exceed the available appropriation; and
   - Comply with all relevant statutes, regulations and board directives.
   - An officer with expense authority must not approve an expenditure or payment requisition where he/she will be the payee.
4. The board of directors and the CEO must approve delegated authorities in the cooperative society. A delegated authority cannot be re-delegated.



# 7.0 ACCOUNTS PAYABLE

## 7.1 POLICY STATEMENT

The society shall maintain its accounts and prepares financial statements on the accrual basis of accounting in conformity with GAAP. All obligations for materials received or services performed are to be recognized in the period incurred. A balance should be maintained between the effort required to measure and accrue costs and the added value of that effort. This policy shall be applied to all incurred obligations for payroll, goods, services, travel, and subcontracts. If not automatically captured in financial documents and records, liabilities will be measured using accurate, complete and current information available. Each department will identify and report to The Accountant/Head of Finance all unrecorded obligations of the society.

### 7.2 ACCOUNTS PAYABLE MANAGEMENT

The management of the society shall negotiate for appropriate credit terms with the suppliers. This can be realized through the following:

- Longer credit periods;
- Increased credit limits; and
- Higher suppliers' discounts.

## 8.0 PURCHASING MANAGEMENT

### 8.1 POLICY STATEMENT

The purchasing function consists of business processes related to the acquisition of goods and services for the society. In procurement of goods and services, the society management shall be guided by the procurement policy and the provisions of the Public Procurement and Disposal Act, 2005. In general, however, the procurement function should observe the following principles:

### 8.2 Inventory management

1. The level of inventory that the society should hold is a tradeoff between benefits and costs

The benefits of holding inventory include:

- Taking advantage of large volume discounts;
- Reducing probability of production disruptions because of lack of inventory;
- Minimizing loss of sales because of stock-outs.
- The cost of holding inventory includes:
- Financing costs associated with inventory investments;

- Costs for storage, handling, insurance, spoilage and obsolescence.

2. Some of the factors to be considered when determining optimum stock levels include:
   - The projected use of each item in stock;
   - Availability of the stock items;
   - The period it takes for delivery by suppliers; and
   - Consignment inventories

## 9.0 CASH MANAGEMENT

### 9.1 REASON FOR POLICY

The purpose of cash management system is to ensure that:

i. All cash received is promptly and accurately accounted for and banked intact;
ii. All payment are properly verified and approved before payment is made;
iii. All vouchers and supporting documents are properly stamped "paid" immediately after payment is done;
iv. There is adequate segregation of responsibilities;
v. All cash transactions are properly captured by the general ledger system; and
vi. Bank and cash reconciliation are done on a timely basis.

### 9.2 CASH FLOW MANAGEMENT

1. The essence of cash flow management is the determination of the optimal cash balance that the society should operate with at all times. The optimal cash balance is the amount of cash that balances the risks of illiquidity against the opportunity cost associated with maintaining cash balance.

2. Cash flow management will seek to strike a balance between:

- Investing cash to earn a satisfactory yield from deposit accounts or short-term investments; and
- Holding cash to pay the day to day running expenses as well as other transactional and speculative motives,
- Having enough liquidity to cater for loan disbursements and deposit withdrawals.

3. Some of the guidelines for more effective cash flow management include:
    a) Ensuring timely loan recovery by developing close relationships with borrowers.
    b) Delaying payments by negotiating with suppliers mutually beneficial payment policies;
    c) Choosing banks that offer customized cash management services and expert banking advice;
    d) Developing accurate cash flow forecasting techniques and models that are linked to budgets and strategic plans. Cash flow forecasts (also called Cash Budgets) are powerful management tools that help to identify future deficits or surpluses in liquidity. They help to identify cash problems and opportunities in advance. The co-operative should develop annual and monthly cash flow forecasts;
    e) Regular reviews of the cash situation should be conducted to ensure that the cash balances correspond with the budget. significant variations from budget should be analyzed and explanations sought; and
    *f)* Ensuring appropriate use of current technology: for example, telephone and Internet banking as these are faster and cheaper
    g) Cash transactions should be effected at specific times of each working day to minimize disruptions at the accounts office and to allow for security arrangements where necessary.

## 9.3 CASH RECEIPT AND RECORDING

The procedures for raising and recording cash receipts include:

### 9.3.1 Acknowledgement of Transactions

Acknowledgement of each transaction that results in the payment or transfer of money to the co-operative will be confirmed by issuance of an official receipt immediately. The receipts are pre- printed and issued in triplicate. The original copy goes with the payer. Another is sent to accounts while the cashier retains one. Receipts should be pre-numbered and issued chronologically.

### 9.3.2 Void Receipts

If an error occurs in receipting, the receipt must be neatly crossed and clearly marked cancelled (in capital letters) and either filed or left in the receipt book.

### 9.3.3 Payments in Foreign Denominations

Payments denominated in foreign currency shall be receipted separately and the foreign currency amount indicated before being translated into local currency.

### 9.3.4 Counting Money

All money received must be counted and the amount verified by the Cashier before it is placed in the cash drawer. If an interruption occurs during the counting process, the counting must be stopped and started again from the beginning.

### 9.3.5 Cheque Receipts

The cashier shall accept cheques in payment of loans, member deposits or other receipts subject to limitations or exceptions that may be set by the management committee. Before receipting a cheque the cashier should verify the following details on the cheque presented:

i. The cheque is payable to the co-operative;
ii. It is a current cheque and not postdated or stale (over six months);
iii. The cheque is properly signed by the presenter;
iv. No discrepancy exists between the amount in words and figures;
v. The cheque has no alterations and cancellations;
vi. It bears no restrictions limiting that may delay or prevent payment; and
vii. The cheque contains sufficient information to permit tracing the presenter,
viii. Cheque must be banked in the SACCO's bank account on the same day or latest the day following day of receipt if the cheque is received close to end of banking hours.
ix. The officer responsible for banking cheques shall retain copies of each cheque before banking.

### 9.3.6 Mail Receipts

1. All cash receipts received in the mail must be opened in an area separate from other cash handling operations. The employee who does the actual opening should not be involved in any accounts receivable or other cash handling activities.
2. All cash receipts received in the mail must be recorded on a mail receipts register which must include:
   - Name of payer;
   - Date of cheque;
   - Cheque number;
   - Amount received;
   - Date payment received;
   - Name or number of account for which the payment was made. Unidentified receipts should be entered as such and a photocopy made and filed to aid in identification later; and
   - Other comments or descriptions.

## 9.4 CASH PAYMENTS AND RECORDING

1. The Society will make all payments by cheque or bank transfer. However, cash payments can be done where amounts involved are not material and have been authorized.
2. Cash payments must be supported by the supplier invoice; goods received note/delivery note, approved purchase order, approved payment voucher and budget/vote code to be charged.
3. Authorization of Payment - No payment should be made unless the payment voucher/coding slip is properly authorized;
4. The payment voucher must have the following attached:

For construction contract payments, an architect's certificate will be attached.

i. For services rendered, a professional fee note/debit note will be \ attached.
ii. The payment voucher/coding slip will similarly be prepared for

all other payments e.g. travel imprest, reimbursements impersts, payment of utilities etc.

iii. The Departmental Head must sign the Duty Travel Request Form in case of travel imprest which has no supporting documents.

5. Processing Cheques and bank transfers

**a)** Bank transfers shall be authorized in the same manner as cheques and shall be submitted to the bank in accordance with bank policy and account operating mandate.

**b)** A cheques will only be drawn against an authorized payment voucher/coding slip:

**c)** All payments vouchers/coding slips and supporting documents must be stamped "paid" with the date and cheque number (where applicable) when the cheques are presented for signing.

**d)** The payment vouchers/coding slips shall be filed according to the cheque number by month by bank. The latest cheque number should be on top.

**e)** All cheques should be crossed and opening of crossed cheques should only be made for imprest (petty cash) or travel purposes.

**f)** List of all authorized signatories to the various bank accounts should be maintained.

**g)** All cheques must be signed by signatories stated in the by-laws.

**h)** Cheques should only he signed when fully supported with documentation.



**i)** No blank cheques should be signed under any circumstances.

**j)** A remittance advice will be prepared and attached to the cheque. Once the cheques are signed, they will he dispatched with the remittance advice to the drawee.

**k)** The payment vouchers/coding slips are filed according to the cheque number latest payment on top and within each financial year. Payment vouchers are filed according to the bank in which such cheques are drawn.

l) Security of Unused Cheques-Cheque books are issued by the banks against duly authorized cheque requisitions as signed by the bank account signatories.

m) Cancelled cheques should be clearly marked CANCELLED (in capital letters) across the face of the cheque and attached to the counterfoil or filed in the relevant file

n) Security of Paid Cheques-Paid cheques are retained by the bank. If any reference or verification is required, -the Accountant/Head of Finance may request the bank for a copy of the cheques.

**o) Treatment of Stale Cheques**

A cheque is considered stale if it has not been presented to the bank for a period of six months from the date of issue. Stale cheques should be written back in the reconciliations and all respective ledgers accounts unless the cheque is:

i. submitted by payee for replacement.
ii. Cancelled, and a new cheque issued for the same amount.

**p) Stop- Payment Orders**

If for any reason a mistake is detected after the cheque is issued or cheques are lost, instructions should be given to the bank to stop the payment. Telephone orfax or email instructions should be given immediately to be followed by a written confirmation.

q) **Counterfoils-Counterfoils** of used cheque books should be retained for future reference. The current year's counterfoils should be readily available for audit.

r) **Authorization of Payments for Goods**, Works and Services

Official purchase orders shall be issued for all goods, works and service required as per society's procurement regulations. These regulations will be based on best practice, public procurement regulations and donor/development partner procurement guidelines.

### s) Bank and banking arrangements

a. The CEO shall on behalf of the society make banking arrangements with reputable banks. A list of banks shall be approved by the board of directors.

b. Cheques in current use shall be entered in the register of accountable documents to be kept by the Accountant/Head of Finance.

### t) Cashbook/Cash Ledger-

i. The Cashbook is a record of all transactions affecting a particular account. Entries must be made daily as they occur so that the balance of the account can be ascertained at any time with a reasonable degree of accuracy.

ii. Bank charges which may not be known immediately should be recorded immediately the bank statement and respective advice slips are received

iii. All the entries in the bank statements which have not been included in the course of writing the cash book must be included before the cashbook is balanced off and before a bank reconciliation is prepared.

iv. Cheques must be recorded in strict numerical order including cancelled cheques. This information should he recorded in the cashbook immediately the cheque is issued.

v. At the end of every month the cashbook should be ruled off and the cross and down castings balanced.

### u) Bank reconciliation

i. The bank reconciliations must be prepared by the fifth working day of the following month. Bank reconciliation must be checked by the Finance Officer (Accountant) and approved by the Accountant/Head of Finance who should ensure that reconciling items are subsequently cleared and unidentified items are investigated without delay.

ii. Once the cashbook is balanced both on the payment and receipts side, every entry in the cashbook and the bank statements will be compared. The balances per cashbook will be compared with the balance as shown in bank statement.

Reconciling items will be for:

a) Items appearing in the cash book but not in the statement including:

   i.) Receipts entered in the cashbook not yet credited in the bank statement (uncredited lodgments);

   ii.) Cheques entered in the cashbook not yet presented to the bank (unrepresented cheques).

b) Items in the bank statement not in the cash book, including:

   i.) Bank charges such as ledger fee, commission, clearing bank charges and bank interest;

   ii.) Direct remittance from third parties whose deposit slips have not been presented to the society;

   iii.) Entries entered by the bank as errors if any.

**v)** Cheques Dispatch- All cheques 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).

**w)** Cash Flow Forecast and Investment of Excess Funds-The Accountant/Head of Finance will prepare cash flow projections and review cash position in making cash management decision. Surplus funds will be invested according to approved investment policy of the society.

### 9.5 PETTY CASH CONTROL PROCEDURES

1. The purpose of the petty cash system is to ensure the maintenance of sufficient amount of float to meet small cash needs and Safe custody of petty cash funds;
2. Adequate control over petty cash held and petty cash payments made should be undertaken through;
   i. Prompt and accurate processing, issuance, recording and accounting for petty cash;
   ii. The society will maintain a petty cash float to meet small office expenses. As a general rule any payment in excess of KES 20,000.00 will be made by cheque or bank transfer.

iii. The designated cashier will maintain a float of the amount approved by the board as petty cash. Any other cash withdrawn for specific purposes has to be surrendered to the cashier for proper accounting before the money is paid out.

iv. Petty cash shall be securely locked up in a safe. The cashier should ensure adequate security measures are in place.

v. The Accountant/Head of Finance and /or the supervisory committee will periodically, but at least once per month, ensure that surprise petty cash counts take place to ensure petty cash is safe, used as intended and accounted for correctly. The count sheet shall be countersigned by both the cashier and the person conducting the count and dated.

3. Request and Payment of Petty Cash

The following are the procedure for making requests for petty cash payments:

i) Employees requiring petty cash will complete the petty cash voucher (PCV) form and obtain approval from their respective head of department.

ii) Once approved by the Accountant/Head of Finance and authorized by the CEO, the PCV will be presented to the cashier for payment. The recipient of petty cash will sign the PCV on receipt of the funds. The cashier will retain the PCV in the petty cash box until the funds are accounted for with supporting documents.



iii) Petty cash advance will be accounted for immediately after incurring expenditure. This should take place on the same day the petty cash advance is taken. Only in exceptional cases should petty cash be accounted other than on the day of disbursement. The petty cash holder will summarize the expenses, attach all the receipts and submit them to the cashier. Any difference between the advance and the expenditure will be reflected on the PCV and surrendered to the cashier.

i) If more than the approved advance is spent, the person authorizing 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.

4. Petty Cash Replenishment
   i. The petty cash float will be replenished with the amount spent every time the balance falls below 40% of the float.
   ii. A payment voucher will be raised for the replenishment. The petty cash replenishment cheque should be reconciled to the petty cash expenditure.
   iii. Any discrepancies noted should be investigated immediately and corrective action taken.

5. Cash Reconciliation Procedures

   This will be prepared on a daily basis by the cashier and supervised by the accountant who will ensure that it agrees to the daily balances.

**9.6 CASH COUNT AND RECONCILIATIONS**

i. Physical cash counts should be undertaken daily and the balances reconciled with the accounts records to ensure that all transactions have been reflected in the accounts records and that no cash has been lost.

ii. Material discrepancies will require further investigation to establish the cause.

iii. The Accountant should undertake a daily cash count confirmation to ensure that discrepancies are addressed on time.

**10.0 EMPLOYEE BUSINESS TRAVEL**

**10.1 REASON FOR POLICY**

The purpose of the employee travel policy is to:

(a) Ensure the most cost-effective means of travel, and promote economy and efficiency in the expenditure of travel funds

(a) Establish standards to ensure:

i. Travel expenses are proper, reasonable and necessary for program delivery.

ii. Accountability for claim requests and approvals.

iii. Employees do not personally gain or indulge themselves at the society's expense.

i. Provide and promote alternatives to travel when on the co-operative business.

The respective budget holders for approved activities will review and approve local travel and activity imprest applications. All out of country activities must also be approved by the Board Chairman and CEO. Travel and course imprest requisitions are approved by the respective departmental heads or Board Chair in regard to Board and Supervisory Committee members. The approved application will be submitted to the Finance department at least three (7) working days before the date on which funds are required. The Accountant/Head of Finance shall make recommendations within 2 working days and forward to CEO for approval. Once an imprest is issued, it will immediately be posted to an interim staff imprest account of the individual taking the imprest.

**10.2 IMPREST POLICY**

1. Temporary imprest will be issued to officers for specific purposes and will be accounted for by submission of cash receipts and/or cash.
2. Retirement of temporary 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 officers' personal account and recovered from his/her salary without notice.
3. Travel imprest-The society will pay 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.
4. Application for Travel Imprest.

5. The respective budget holders for approved travel will review and approve travel imprest application. The approved application 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 individual taking the imprest.
6. Un-Surrendered Imprest-Imprest that remains unaccounted for beyond the required period of return to office be recovered from the employee's salary in such amounts and over such period as the Accountant/Head of Finance may consider appropriate.
7. Roles and Responsibilities

   a) Employees are responsible for:

      i. Obtaining expense authority approval to travel before expenses are incurred;

      i. Certifying that their travel expense claims are correct, complete and comply with policy.

   b) Expense Authority officers are responsible for;

      i. Approving employee travel before expenses are incurred;

      ii. Certifying that employee travel expense claims:

      - Are for business purposes, appear reasonable and comply with policy;
      - That there are sufficient funds in the budget; and
      - That travel related goods and services have been received.

## 11.0 PAYROLL PROCEDURES

### 11.1 REASONS FOR POLICY

The purpose of the payroll system is to ensure:

1. Compliance with changing government policies and laws pertaining to employment payments and taxation;
2. Prompt service to employees in terms of their salaries and wages
3. Complete and accurate data capture and payroll processing;
4. Production of all required reports in timely manner;
5. Employees are paid in accordance with letters of appointment;
6. There is adequate security and confidentiality over payroll data;

7. Statutory and voluntary deductions are properly accounted for and remitted to the appropriate authorities;
8. Payroll expenses are posted to the general ledger system; and
9. Promotion of the use of electronic methods for transactions and payments to employees.

### 11.2 POLICY STATEMENT

The society shall be guided by the following policies in payroll management:

1. The society will issue appointment letters to all newly employed staff.
2. Payroll processing will be in line with the terms and conditions of services of each category of staff.
3. Tax will be deducted on all taxable pay in accordance with relevant tax law. To avoid the risk inherent in carrying large sums of money and minimize the risk of loss of payroll frauds, all staff will be required to operate bank accounts through which their salary will be held.
4. The payroll will be prepared on a monthly basis. The Accountant/Head of Finance will ensure that this is prepared by 20th every month. Salary bank transfer. instructions and the salary cheque will be forwarded to the bank on or before 25th of every month to ensure salaries are credited to employee bank account before the end of the month.
5. Payroll reports (net salaries, statutory and non-statutory deductions) will be reviewed by the Accountant/Head of Finance and verified by the head of Human resource or the CEO as the case may be.



### 11.3 PAYMENT OF STATUTORY AND OTHER DEDUCTIONS

The payment of statutory and other deductions shall follow the following procedures:

i. Cheques will be prepared and sent to the respective payee accompanied by the supporting lists.

ii. The society will remit the statutory deductions within the stipulated period and in accordance with the given procedures.

### 11.4 ACCOUNTING FOR SALARIES

The procedures for accounting for salaries shall include:

i. The total salaries for each month will be computed and shown on the payroll. The payroll cost should include employer's contribution to both NSSF and other schemes approved by the board.

ii. The Accountant/Head of Finance will ensure journal entries from payroll reports are prepared. The salary control account will be debited with gross salaries and statutory and other deductions and amounts credited to the respective accruals accounts.

iii. The accruals accounts will be debited with payments made.

iv. The notification change should be received by 11th day of each month and all changes annotated on previous month's payroll. Those received later than the 11th day will be processed in the following month.

**11.5 PAYMENT OF SALARIES**

The procedures relating to payment of salaries include:

i. The final payroll will be checked for accuracy by the Accountant/Head of Finance and approved by head of human resources or CEO before payments are processed.

ii. Payment of salaries will be done once every month on a date set by management through bank transfers,

iii. The head of human resources or CEO will send the salary advice slips to the employees.

iv. Employees whose services are terminated before the end of the month will be deleted from the payroll and terminal benefits paid after all department heads sign the clearance form. A payment voucher will be completed showing details of the payments.

v. Every month the entry in the salary control account is cleared and if there is a balance, it should be investigated and necessary adjustment made.

vi. Other payroll creditor's accounts are also expected to be cleared within one month. Balances outstanding for more than one month should be investigated and properly explained.

vii. Other staff costs not paid through the payroll e.g. terminal benefits will be posted to profit and loss account through the cash book



## 12.0 FINANCIAL SYSTEMS, INTERNAL CONTROL AND AUDITING

### 12.1 PROPER FINANCIAL SYSTEMS

1. A financial system is any system that is used to exercise financial management, control and accountability over monies or assets. These include systems (manual or automated) that are used to record, verify, report, generate and/or execute financial transactions, and those used for the management and control of assets, liabilities and assets held in trust. Some key issues to note regarding financial

systems include:

2. The board is responsible for determining the methodology to be used in the development of financial systems.

   i. The board must ensure that financial systems have sufficient and comprehensive controls to prevent and reduce the risk of loss, error, misuse or fraud to an acceptable level.

   ii. A risk and controls review must be performed and documented for every new financial system, and whenever there are significant modifications to an existing financial system.

   iii. The CEO or Accountant/Head of Finance where delegated, has overall responsibility for the ongoing operation of financial systems.

   iv. The society board must ensure financial system documentation is sufficient in detail to enable effective system use and maintenance. This documentation must be completed prior to system implementation

### 12.2 Accounting system

All financial records and transactions shall be automated. The Society shall therefore acquire and use accounting and financial management software that shall include integrated functionality and modules for:

- General Ledger.
- Financial reporting.
- Accounts Payable.
- Accounts Receivable.
- Asset management.
- Cash book.
- Payroll

The Society shall endeavor to ensure that the financial management system is integrated into its core operating system. The Society shall also contract a reputable service provider to supply financial management and accounting software through a competitive bidding process. The contracted service provider shall offer annual maintenance and support services as shall be specified by the Society with each party's rights and obligations being spelt out under an annual maintenance contract.

The accounting and financial management software shall be hosted on a server owned by the Society with regular on and off-site back-ups being maintained in accordance with the Society's ICT and records management policies and procedures. The Accountant/Head of Finance shall review the suitability of the software every FIVE years and make recommendations to the board on the steps to be taken in regard to upgrade, modification or change of the software. The software's documentation shall at the bare minimum include:

1. Detailed user manual.
2. Technical manual.
3. Annual maintenance contract.
4. Software source code maintained by an independent party appointed jointly by FKE and the service provider – escrow arrangement.
5. License agreement.

The modules shall have the following capabilities

**General Ledger.**

1. A chart of accounts
2. Ability to create ledgers, sub-ledgers and subsidiary ledgers.
3. Ability to classify ledgers into Assets, Liabilities, Expenses and capital
4. Savings ledger
5. Loans ledger

**Financial reporting.**

Ability to prepare

1. Trial balance
2. Profit and loss account.
3. Cash flow statement
4. Balance Sheets
5. Management Accounts

**Asset management.**

1. Asset register
2. Depreciation
3. Revaluation
4. Asset movement

**Cash book.**

1. Cash at hand/Petty Cash
2. Cash reconciliation
3. Imprest.
4. Bank Account
5. Bank account reconciliation.
6. Cash reporting

When implementing a Financial Management System, the Accountant/Head of Finance shall ensure that:

- A GL code list developed and structured in such a way that every main activity of the Society is included therein. The personnel of each area should examine the operations of their area, and analyze them into the main activities/cost centers covered by the code list
- A cash control account is maintained in the ledger with controls to ensure that the respective debit and credit to the cash control account reconcile with the cashbook total for the relevant month
- A separate ledger folio is set up for each type of expenditure within each main activity (i.e. a separate folio for each detail head such as employees, premises, supplies and services within each activity) and for each personal account that should be required.
- The nominal account folios for each type of expenditure (detail head) have analysis columns for the sub Department of the detail head e.g. a folio for employees is sub divided by columns into gross wages, gross salaries, car transport allowances, leave transport, funeral expenses etc.
- The opening postings into the new ledgers are done via the journal, from the opening balance sheet, statement of affairs etc.
- A Trial Balance should be struck after the opening balances have been posted. Subsequent posting on a monthly basis should then be posted to the ledger, and a Trial Balance struck after each month's posting.

System user manuals for the Society's financial management and accounting software are attached as appendix 1 of this policy

### 12.3 REPORTING AND INVESTIGATION OF FRAUD OR MISCONDUCT

1. The board and employees are responsible for safeguarding the society's resources and ensuring they are used only for authorized purposes, in accordance with society rules, policies, and applicable law.
2. It is a violation of society policy for any employee to receive or use society resources for non- cooperative society purposes or personal gain.
3. Employees are responsible for detecting fraudulent activities or misconduct in their areas of responsibility
4. Management is responsible for taking appropriate corrective actions to ensure adequate controls exist to prevent the reoccurrence of fraud.
5. Employees are required to cooperate with the administration and other appropriate law enforcement agencies in the detection, reporting, and investigation of fraud, including the prosecution of offenders.

### 12.4 PROTECTION FOR THOSE REPORTING WRONGFUL CONDUCT

1. The board shall protect the identity of employees making disclosures of wrongful conduct (whistle blowers) and maintain confidentiality.
2. The board will take appropriate disciplinary and legal action against employees who commit fraud. The actions may include termination of employment, mandating restitution, and/or informing the appropriate authorities in accordance with cooperative society policies and procedures, and laws of the land.

### 12.5 DEFINITIONS AND EXAMPLES OF FRAUD

1. Fraud for the purpose of this manual is intentional misuse or conversion of cooperative society property or resources for personal non-official uses
   2. Examples of fraud covered under this policy include but are not limited to such actions as:
   a) Embezzlement or other financial irregularities,
   b) Misappropriation, misapplication, destruction, removal, or concealment of property;
   c) Forgery, falsification, or alteration of documents (checks,

promissory notes, time sheets, travel expense reports, contractor agreements, purchase orders, other financial documents, electronic files, etc.);

d) Improprieties/misrepresentation in the handling or reporting of money or financial transactions;

e) Theft, destruction, or misappropriation of funds, securities, supplies, inventory, or any other asset (including furniture, fixtures or equipment, trade secrets and intellectual property);

f) Authorizing or receiving payment for goods not received or services not performed;

g) Authorizing or receiving payments for hours/time not worked;

h) Misuse of society property, plant, such as telephones, e-mail systems and computers;

i) Intentional violation of the procurement and disposal policies and procedures, including dishonest or improper reporting of results, selective reporting, or omission of conflicting data for deceptive purposes;

j) Accepting or offering bribes, kickbacks, or rebates;

k) Assigning an employee to perform non-employment related tasks by persons in the supervisory or management committee; and

l) Actions related to concealing or perpetuating above mentioned activities.

## 12.6 INTERNAL CONTROLS

1) Internal controls shall be implemented and monitored as spelt out in the investment policy

2) Segregation of Duties- As an internal control measure, no one person shall perform or control all the phases of a transaction;

For example:

i. One individual shall **not request**, **approve** and **make the payments.**

ii. Bank reconciliations shall not be done by an employee who also signs the cheques, or undertakes the recording of the cashbook transactions and any such reconciliation shall be checked by the responsible officer

3) Internal controls shall comply with the International Auditing Standards

### 12.7 GIFTS TO OFFICERS

Officers of the society should avoid accepting any kind of gratuities, tips or gifts for themselves, their spouses or immediate family from any person or entity who:

i. Seeks official action by the society
ii. Does business or seeks to do business with the society; Conducts activities regulated by the society;
iii. Has interests that may be substantially affected by the performance or nonperformance of the official duties of the society;

## 13.0 LIABILITIES CLASSIFICATION

1) Liabilities are to be reported on the society balance sheet using the accrual basis of accounting. The accrual basis of accounting records the effects of a transaction and other events in the periods when they occur instead of the periods when cash is received or paid. Accordingly, accrual accounting recognizes cash as well as non cash transactions and exchanges of goods and services.
2) Liabilities are to be classified on the society's balance sheet in ascending order of time of maturity. They are usually divided into current and non-current categories. The term accrued liability shall be used to mean obligations for goods and services provided to the SACCO for which invoices have not yet been received.
3) Current liabilities are reasonably expected to be liquidated within a year. -These represent obligations arising from a co-operative's



ongoing operations including acquisition of goods and services, wages, taxes, unearned revenue and portions of long-term loans to be paid this year among others.

4) Long term liabilities are reasonably expected not to be liquidated within a year. They usually include long term product warranties, pension obligations and long-term leases among others.

## 14.0 PROPERTY AND EQUIPMENT

### 14.1 POLICY STATEMENT

Amounts expended for property, plant and equipment (in excess of certain thresholds, whether purchased, constructed or leased) should be capitalized, depreciated and periodically reviewed for impairment or possible write-off in accordance with GAAP and regulatory requirements.

### 14.2 CAPITAL BUDGETING

1) Capital budgeting is the process of selecting and ranking projects which require an initial cash outlay but whose cash inflows are expected to flow over a period of time usually exceeding one year. The capital expenditure required in the acquisition of property, plant and equipment fall under this category.
2) The criteria for capital budgeting decision are based on the premise that the goal of the society is to maximize the present value to its members. Consequently, the co-operative should only undertake those projects that result in a positive net present value (NPV).
3) Net present value is the present value of the expected cash inflows less the present value of the required capital outlay. Using NPV as a measure, capital budgeting involves selecting those projects that increase the value of the firm because they have a positive NPV.

### 14.3 COST OF PROPERTYAND EQUIPMENT

The cost of propertyand equipment will include all expenditures reasonable and necessary in acquiring the asset and putting it in a position and condition for use



### 14.4 ASSET TAGGING

On receipt, each asset will be verified and assigned a unique tag number and recorded in detail in the property, plant and equipment register. The property, plant and equipment register shall have the following information for each asset.

i. Description of asset including model and serial number;
ii. Date of purchase and cost;

iii. The tag number;

iv. Class and category of asset;

v. General and specific location

### 14.5 CONTROL OVER PROPERTY AND EQUIPMENT USAGE

Property and equipment usage will be controlled through the use of the following:

a. Transport requisition form;

b. Vehicle movement register (work tickets);

c. Property and equipment movement register;

d. Authority for movement of property and equipment forms.

### 14.6 INSURANCE

1. The board will ensure that insurance covers are obtained for all property and liability risks.

2. The head of HR or CEO as the case may be shall be responsible for affecting all insurance covers on behalf of the society with reputable insurers; Insurance purchases are subject to the procurement regulations.

3. All property, plant and equipment will be insured against such risks as:

   i. Fire;

   ii. Burglary;

   iii. Motor vehicle insurance; Other insurance covers that the society may consider include; Cash in transit;

      a) Group personal accidents;

      b) Employees' liability;

      c) Workers' compensation;

      d) Public liability.

4. Adequate insurance registers shall be kept and policy documents kept in safe custody by the CEO or Head of HR.

## 15.0 FINANCING

### 15.1 POLICY STATEMENT

The co-operative shall strive to achieve an optimal financing structure between debt financing and equity financing.

### 15.2 DEBT-EQUITY RATIO

The SACCO will seek to strike a balance between debt and equity as a way of raising funds to finance the SACCO operations. From the lender's perspective, the debt to equity ratio measures the amount of available assets or "cushion" available for repayment of a debt in the case of default. The Co-operatives should therefore avoid excessive debt financing since this will impair its credit rating and its ability to raise more money in the future.

### 15.3 LEASE FINANCING

The co-operative may opt to lease its equipment rather than outright purchase, when it's more prudent than buying. The terms and conditions for each lease are contained in the leasing agreement.

## 16.0 INVESTMENTS

### 16.1 POLICY STATEMENT

1) The SACCO shall strive to achieve an optimal investment structure given its financing structure.
2) All investments shall be done in line with the investments policy and other applicable laws, rules, regulations and policies

## 17.0 Bank Account Operation

### 17.1 Bank mandate

The Society will ensure an updated bank mandate is put in place. This will govern the authorized signatories and approval limits on the bank accounts. The key principle is that all bank accounts will have at least three signatories. Any changes to the bank mandate must be approved by the Board of Directors with board minutes taken to record the resolution. Changes to the mandate must be communicated to the Bank in writing by board resolution

In the event of an authorized signatory leaving the Society or change in board membership, the banks must be notified in writing by close of business of the subsequent banking.

### 17.2 Signing limits

The SACCO will ensure that all bank accounts will have at least three signatories. The Board shall set bank account authorization limits.

### 17.3 Authorized agents

The society shall also have a list of appointed agents for its bank accounts.

These officers are authorized to carry out certain specified actions with the bank on behalf of the society. Such actions include, but are not limited to:

- Collecting or receiving bank statements, credit advice slips and other banking correspondence; and
- Withdrawing cash from the bank.
- Bank enquiries in regard to entries, balances and transactions etc.

The Accountant/Head of Finance will approve the appointment of agents, in consultation with the CEO and define their mandates.

Appointment or removal of agents must be communicated to the bank in writing. In the event an authorized agent leaves the organization, the bank must be in writing by close of business the following banking day.

**18.0 Whistleblowing**

**The Board and management** shall introduce and communicate a whistleblowing in the society to encourage members, employees, directors and other stakeholders to volunteer credible information that can be authenticated on illegal practices or serious violations of adopted financial policies and procedures or the laws of the Republic of Kenya. Such reporting shall be anonymous and the whistleblower's identity will be protected and the information treated in confidence. Where the identity is revealed, measures shall be taken to protect the whistleblower from retaliation. Such protection may include:

- Transfer from a department if the culprit is the whistleblower's supervisors or managers.
- Change of reporting line where a transfer may not be possible.
- Protection from disciplinary action initiated by the culprits.
- Physical security arrangements.
- Malpractices where whistleblowing is encouraged include:
- Terrorism financing
- Soliciting of bribes
- Engagement in corrupt practices
- Conflict of interest.
- Embezzlement of funds.
- Money laundering

Management shall establish a whistleblowing E-mail address and drop box where such information can be submitted anonymously. Access to the box and E-mail shall be under the dual custody of the CEO and the Accountant/Head of Finance. Where the custodians are the suspected culprits, whistleblowers will be encouraged to report the matter to the Chairpersons of the Board and the Supervisory Committee.

**19.0 Review and amendment of the Policy**

This policy shall be reviewed and amended annually or as often as changes in laws and regulations necessitate changes. All amendments shall be supported by a minute of the board

## 20.0 APPROVAL AND ADOPTION OF THE POLICY

This document was discussed and approved for implementation as a policy

of the society in respect to Finance and Accounting Policy with effect from ____ __________________2022.It is approved under Minute Number __________ of Board of Directors Meeting held on____________________________.

We the undersigned Directors of FARMERS CHOICEREGULATED NON-WITHDRAWABLE DEPOSIT TAKING SACCO Society Ltd hereby adopt the Finance and Accounting Policy for and on behalf of the Society.

| TITLE | NAME | I.D NO | SIGNATURE |
|---|---|---|---|
| Chairman | | | |
| Vice Chairman | | | |
| Secretary | | | |
| Treasurer | | | |

Dated at Nairobi this ______ day of ________________________ 2024.