

Utility Management Series for Small Towns

# Finance Policies and Procedures

**UN HABITAT**  
FOR A BETTER URBAN FUTURE



Volume

**1**

## **Finance Policies and Procedures**

Copyright © United Nations Human Settlements Programme 2012

### **All rights reserved**

United Nations Human Settlements Programme (UN-Habitat)

P.O. Box 30030 - 00100 Nairobi GPO Kenya

Tel: 254 20 7623120 (Central Kenya)

Website: <http://www.unhabitat.org>

Email: [habitat.publications.org](mailto:habitat.publications.org)

HS/122/12E

ISBN (Series) 978-92-1-133404-3

ISBN(Volume) 978-92-1-132535-5

### **Disclaimer**

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning delimitation of its frontiers or boundaries, or regarding its economic system or degree of development. The analysis, conclusions and recommendations of this publication do not necessarily reflect the view of the United Nations Human Settlements Programme, the Governing Council of the United Human Settlements Programme, or its Member States.

### **Acknowledgements**

Principal Authors: UN-Habitat Lake Victoria Water and Sanitation Initiative team and National Water and Sewerage Corporation team

Contributors: Robert Goodwin, Rose Kaggwa and Anne Malebo

Editor: Lake Victoria Water and Sanitation Initiative team

Design and Layout: Anne Musotsi

Utility Management Series for Small Towns

## Finance Policies and Procedures

UN  HABITAT





## FOREWORD

Municipal authorities and urban service providers are being increasingly challenged to deliver sustainable services in a rapidly urbanizing world with complex problems resulting from the interplay of climate change, resource constraints and the adverse effects of a sluggish world economy. The need to improve the coverage and efficiency of urban basic services, such as water supply, sanitation, energy, drainage and transportation, has never been greater.



It is now well recognized that the essential pre-condition for improvements in the delivery of urban services, is to establish effective and well run institutions within the framework of a policy environment that promotes investment, a commercial approach to service delivery, managerial autonomy and accountability to key stakeholders, including customers and the Government.

With its mandate to promote sustainable urbanization, UN-Habitat has been in the forefront of international efforts to build the capacity of urban water utilities to face the challenges of expanding access to water and sanitation while improving the efficiency of service delivery. Through its regional and national programmes and the Global Water Operators Partnership Alliance, UN-Habitat provides capacity building for urban water utilities with a focus on business planning, water demand management, improving billing and revenue efficiency, energy audits and planning for climate change adaptation.

The Lake Victoria Region Water and Sanitation Initiative is one of the regional programmes in Africa that has demonstrated the effectiveness of integrating capacity building for urban water utilities with modest investments to improve infrastructure. The first phase of the Initiative has now been completed with impressive improvements in extending access to water and sanitation while enhancing the managerial capacity and operational efficiency of the utilities in the ten pilot towns in Kenya, Uganda and Tanzania. The utilities which have benefited from the capacity building programme have experienced significant improvements in performance in key areas such as revenue enhancement, an expanded customer base and reductions in non-revenue water.

The six training manuals which are included in this Compendium of Training Materials are based on the practical experience of delivering the capacity building programme for urban water utilities in the Lake Victoria Towns. They encompass the key areas of utility management and operations and it is hoped that they will contribute to the knowledge base of training approaches and best practices in the water utility sector in small urban centers.

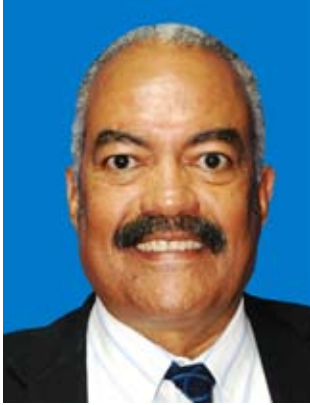


**Joan Clos**

Under-Secretary-General, United Nations  
Executive Director, UN-Habitat



## PREFACE



Small water utilities face unique challenges in delivering water and sanitation services to their customers. With a limited revenue base and few opportunities to benefit from economies of scale, they often suffer from severe skill shortages and a long legacy of underinvestment in infrastructure and capacity enhancement. To overcome these challenges, the small utilities need

to maximize their operating efficiencies and ensure optimum utilization of their assets.

Since the year 2006, UN-Habitat has been working with national and regional partners in East Africa to implement the Lake Victoria Water and Sanitation Initiative (LVWATSAN) which seeks to address the water and sanitation needs of small secondary towns in the Lake Victoria Basin. A capacity development programme in utility management and operations has become an integral component of this Initiative, which was started in 10 towns and is now being expanded to another 15 towns in the 5 East African Countries which share the Lake Victoria Basin.

The implementation of LVWATSAN has generated a solid body of knowledge and experience in enhancing the capacity of small utilities to improve their financial viability and operating efficiencies. This experience has been applied to produce a series of Manuals which can be used as training materials to improve the operating performance of small utilities.

The Block Mapping Procedures Manual is part of a Compendium of Training Manuals for Small Water Utilities, produced by UN-Habitat in six (6) volumes, as follows:

Volume 1: Finance Policies and Procedures Manual

Volume 2: Customer Services User Manual

Volume 3: Block Mapping Procedures Manual

Volume 4: Water Audit Manual

Volume 5: Leakage Control Manual

Volume 6: Reduction of Illegal Water Use Manual

The Manuals were produced through a collaborative effort between UN-Habitat and the National Water and Sewerage Corporation of Uganda within the framework of a fast track capacity building programme in utility management and operations which targeted seven small utilities in the towns around Lake Victoria.



**Robert Goodwin**

Unit Leader, Water and Sanitation

Urban Basic Services Branch

UN-Habitat

Nairobi, Kenya



## ABBREVIATIONS AND ACRONYMS

AIR	Acceptance and Inspection Report
AP	Accounts Payable
AR	Accounts Receivable
ARE	Acknowledgement Receipt for Equipment
ASR	Accountable Stationery Register
CA	Computer and Accessories
CAO	Chief Accounting Officer
CDJ	Cash Disbursements Journal
CIPLC	Construction In Progress Ledger Card
CkDJ	Cheque Disbursements Journal
CR	Credit
CRJ	Cash Receipts Journal
DR	Debit
DV	Disbursements Voucher
FAM	Finance and Accounts Manager
GAAP	Generally Accepted Accounting Principles
GL	General Ledger
GP	General Payroll
GRN	Goods Received Note
HF	Household Furniture and Equipment
IA	Internal Auditor
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRUP	Inventory and Inspection Report for Unserviceable Property
ILC	Investment Ledger Card
IT	Information Technology
JEV	Journal Entry Voucher



LR	Liquidity Report
MD	Managing Director
OE	Office Equipment
OF	Office Furniture
PC	Property Card
PCV	Petty Cash Voucher
PDU	Procurement and Disposal Unit
PE	Printing Equipment
PO	Purchase Order
PPELC	Property, Plant and Equipment Ledger Card
PR	Purchase Requisition
PV	Payment Voucher
RAAF	Report of Accountability for Accountable Forms
RCD	Report of Collections and Deposits
RCI	Report of Cheques Issued
RD	Report of Disbursements
RIS	Requisition and Issue Slip
RPCI	Report on the Physical Count of Inventories
RPCPPE	Report on the Physical Count of Property Plant and Equipment
RPLC	Real Property Ledger Card
SAI	Supplies Availability Inquiry
SC	Stock Card
SIV	Stores Issue Voucher
SL	Subsidiary Ledger
SLC	Supplies Ledger Card
SRV	Stores Receipt Voucher
SSMI	Summary of Supplies and Materials Issued
STV	Stores Transfer Voucher
VE	Vehicles
VFM	Value For Money
WIP	Work In Progress



## **GLOSSARY**

### **Non Revenue Water**

### **Financial Statements**

This is a term that is used to mean; Income & Expenditure Statement, Balance Sheet, Cash Flow Statement & Statement of Equity and Notes to the Statements. The statements are explained in more detail below:-

### **Income Statement**

This gives the operating performance (incomes & expenses – including non-cash items like depreciation & provisions) during the time period.

### **The Balance Sheet**

This reports the financial position of the business unit. It records the business unit's assets & liabilities at current values.

### **Statement of Equity**

This gives the Business owners' (shareholders) interest/stake in the company.

### **Cash Flow Statement**

This gives the company's cash activities. It reports cash receipts & payments & the net change resulting from operating activities, investing activities & financing activities.

## Notes to the Financial Statements

These explain the items presented in the main body of the financial statements. They are explanatory notes on the financial statements items & Accounting policies used.



## CONTENTS

Foreword	iv
Preface	vi
Abbreviations & Acronyms	viii
Gossary	x
1. Background	1
1.1 General Background	2
1.2 Objectives of the Manual	2
1.3 Authority and Scope of the Manual	3
1.4 Financial Laws and Regulations	4
1.5 Manual Outline	4
2. Financial Responsibilities of Utility Officers	6
2.1 Duties of Finance and Accounts Manager	7
2.2 Duties of an Accountant/Finance Officer	9
2.3 Pecuniary Responsibility of Officers	11
2.4 Audit Inspection Duty Officers	12
3. Budgeting	13
3.1 General Budgeting Policies	14
3.2 The purpose of the Budgeting system	16
3.3 Items to be included in the budgets	16
3.4 Steps of Developing a Budget	19
3.5 Key factors affecting Budgeting Process	26
3.6 Key Budgeting Points to Note	27



3.7	Expenditure control	28
3.8	Enforcing priorities stated in the budget	29
3.9	Efficient budget implementation	29
3.10	Budget Cycle	30
3.11	Budget Preparation Procedures	31
3.12	Budget Monitoring and Control	33
<b>4.</b>	<b>General Financial Transactions</b>	<b>34</b>
4.1	Basis of Accounting	35
4.1.1	Generally Accepted Accounting Principles Basis of Accounting	35
4.1.2	Time period	37
4.1.3	Non-cash transactions	37
4.2	Financial reports	38
4.3	Record keeping Policies	39
4.4	Revenue Management	41
4.4.1	Responsible Officers	41
4.4.2	Composition of Revenue	42
4.4.3	Revenue Records	43
4.4.4	Collections of Revenue	43
4.4.5	Accounting for Revenues	43
4.4.6	Loss by Negligence	44
4.4.7	Allocation of Revenue	44
4.4.8	Notices Regarding Issue of Receipts	44
4.5	Management of Monies Received	45
4.5.1	General Policies	45
4.5.2	Receipts	48
4.6	Remittances	50
4.6.1	Banking of Remittances Management	50



4.6.2	Maintenance of Bank Accounts	51
4.6.3	Security of Cash In Transit	52
4.6.4	Information	52
4.7	Bank Accounts and Cheques	53
4.7.1	Checks to be carried out before accepting the cheques	53
4.7.2	Responsibility of Officers accepting Cheques	53
4.7.3	Use of Bank Accounts	54
4.8	Payment – General	58
4.8.1	General Payment Procedures	58
4.9	Control and Use of Official Receipts	68
4.9.1	General Information	68
4.9.2	General Policies	68
4.10	Safe Custody of Cash, Stamps, Accountable Documents, Etc	77
4.10.1	General Policies	77
4.11	Petty Cash Funds	81
4.11.1	General Policies	81
4.11.2	Operation of Cash Payments Imprest	83
4.11.3	Temporary Imprest	84
4.11.4	Petty Cash Replenishment	85
4.11.5	Information	86
4.12	Investment Accounts	87
4.12.1	Investments	87
4.13	Advances and Loans	89
4.13.1	General Information	89
4.13.2	Procedures	96
4.14	Creditors Accounts	98
4.14.1	General Policies	98
4.15	Expenditure - Control and Classification	99

4.15.1	General Policies	99
4.16	Invoices and Accounts Receivable	101
4.16.1	General Policies Invoices and Provisions	101
4.16.2	General Information	102
4.16.3	General Policies Accounts Receivable	102
4.16.4	Procedures for handling Accounts Receivable	103
<b>5.</b>	<b>Asset Management</b>	<b>104</b>
5.1	Policies	105
5.2	Information	123
<b>6.</b>	<b>Salaries and Pensions</b>	<b>127</b>
6.1	Salaries and Pensions	128
6.2	Personnel Requirements	128
6.2.1	Policy	128
6.3	Personnel Standing Data	128
6.3.1	Policy	128
6.3.2	Information	130
6.4	Payroll Payment	130
6.4.1	General Information	130
6.4.2	Policies	130
6.4.3	Payroll Payment Procedures	131
6.5	Handling Payroll Deductions	132
6.5.1	General Policies	132
6.5.2	General Procedures	133
<b>7.</b>	<b>Internal Check System</b>	<b>134</b>
7.1	General Policies	135
7.1.1	Utility Monthly Accounts	135



7.1.2	Cheque Tampering (Forgery)	136
7.2	Financial Operations of a Utility	138
<b>8.</b>	<b>Bank Reconciliations</b>	<b>139</b>
8.1	General Information	140
8.2	Bank Reconciliation Preparation Procedures	144
8.2.1	Preparation of a bank reconciliation	144
8.2.2	Handling Discrepancies	145
<b>9.</b>	<b>Financial Ledgers, Trial Balance and Year End Closing Procedures</b>	<b>146</b>
9.1	Financial Ledgers	147
9.1.1	General Policies	148
9.1.2	Financial Ledgers – General	151
9.2	Trial Balance	152
9.2.1	General Policies	153
9.3	Year End Closing Procedures	154
9.3.1	Accounts Receivable	155
9.3.2	Accounts Payable	156
9.3.3	Payroll	156
9.3.4	Closing Fixed Assets Accounts	157
9.3.5	Inventories	157
9.3.6	General Ledger	158
<b>10.</b>	<b>Financial Records and Reports</b>	<b>159</b>
10.1	Financial Records	160
10.2	Accounting Forms and Reports	163
10.3	Other Financial Records	167



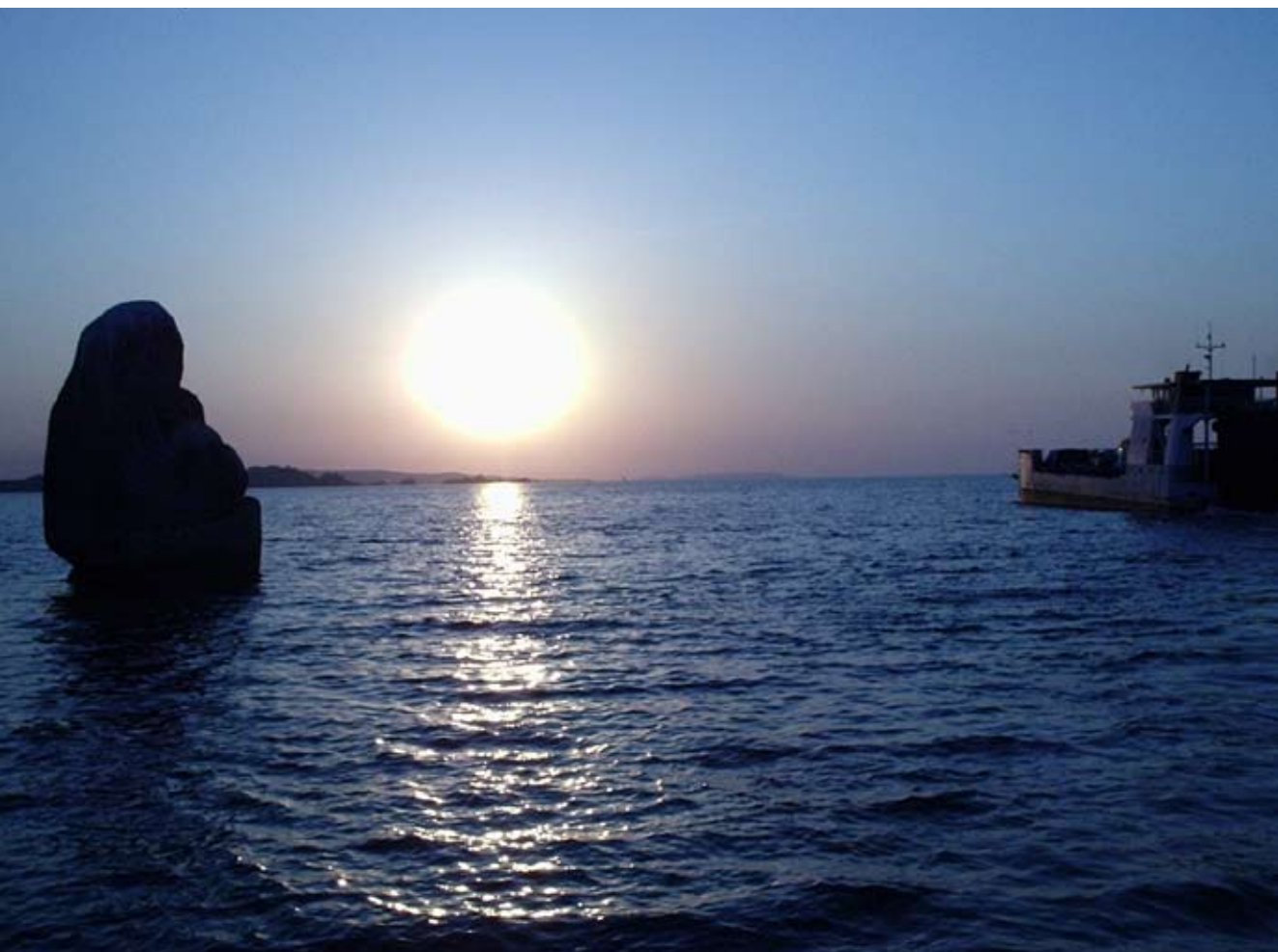


11. Projects	174
11.1 General Policies	175
11.2 Management of Project Funds	176

# CHAPTER 1



## Background



Sunset along the shores of Lake Victoria. Photo © UN-Habitat



**W**ater Utilities have an important responsibility to provide safe and reliable supplies to their customers. This Finance Policies & Procedures Manual is intended to provide guidance to those engaged in execution of finance and accounts function for systematic and consistency in their financial work.

The Lake Victoria Region Water and Sanitation Initiative has provided many useful lessons on the procedures and systems to be followed by water utilities as financial guidelines in their operations. The manual comprises of methods and measures adopted by a utility to safeguard its assets, secure the accuracy and reliability of its accounting data and promote operational efficiency.

The manual also provides an introduction to finance policies and procedures, role of key officers in financing and accounting functions, how to budget and dealing with various financial transactions. Demonstrates how internal accounting control extends beyond internal checking (interlocking and checking accounting routines), internal audit and other matters relating directly to the accounting functions. This also includes delegated authority, budgetary procedures and control, training programs, screening procedures of prospective employees and safe work practices.

Small urban utilities, with all the challenges that they face are encouraged to follow and adopt the provided financial procedures for successful running of the water utilities.



## 1.1 General Background

This Financial Policies and Procedures Manual comprises of methods and measures that can be adopted by a Utility to safeguard its assets, secure the accuracy and reliability of its accounting data and promote operational efficiency.

Internal Accounting Control extends beyond internal checking (interlocking and checking accounting routines), internal audit and other matters relating directly to the accounting functions. It may also include delegated authority, budgetary procedures and control, training programs, screening procedures of prospective employees and safe work practices.

## 1.2 Objectives of the Manual

- To standardize the way Finance and accounting activities are carried out in order to ensure consistency.
- To provide a guidance to all staff of Accounts and Finance for smooth execution of their duties.
- To have in place an adequate system of internal controls that promotes a high level of compliance with the Utility's policies and procedures.
- To continuously review the internal control system to be able to meet the challenges of growth and globalization.
- To implement and maintain this system of control to assist the Utility to carry out its activities in an efficient and orderly



manner, ensure adherence to management policies, safeguard the Utility's assets, and secure the accuracy and reliability of its records.

- ❑ This manual brings together those policies and procedures that relate to improving internal control structure and the accounting activities.

### **1.3 Authority and Scope of the Manual**

- ❑ The instructions contained in this manual are to be read in conjunction with the statutory provisions of relevant Acts, Decrees and Financial Regulations governing the operations of the Utilities.
- ❑ Subject to such Acts, Decrees, Financial Regulations, these instructions, and such other instructions as may be approved by the Utility, the instructions in this manual are under the general management and supervision of the Finance and Accounts Manager, but it is also the duty of all personnel, especially Chief Officers, Managers, section heads and all accounting officers to take care that these instructions are observed.
- ❑ All officers concerned with the collection, disbursement and safe custody of Utility monies or other Utility property are required to observe these Accounting policies and the procedures laid down herein which must be strictly followed.



## 1.4 Financial Laws and Regulations

- ❑ The financial operations of the Utility are governed by the existing Laws and Financial Regulations of the Country and the Utility.
- ❑ These regulations may be varied from time to time by the Board.

## 1.5 Manual Outline

This manual is presented in (11) eleven chapters.

**Chapter 1** Provides an introduction to the Finance Policies and Procedures Manual. It provides background, highlights the regulations.

**Chapter 2** Highlights the duties of the key officers involved in Finance and Accounts function.

**Chapter 3** Gives details on Budgeting function, The process, Implementation and Monitoring and Control.

**Chapters 4 to 8** Deal with handling of various general financial transactions such as Revenue management, Receipt and safe custody of monies, General payments, Creditors and Investment Accounts, Handled also are areas of Asset management (general policies), Payment



of salaries and Pensions, and Internal checks and Bank Reconciliation Procedures.

**Chapter 9** Provides information on Financial Ledgers, Trial Balance and year end closing procedures such as procedures for closing Accounts Receivables and Payables, Fixed Assets, inventories & General Ledger.

**Chapter 10** Talks about financial records and reports. It highlights the recommended forms and ways of keeping financial records. It gives the financial statements that have to be produced.

**Chapter 11** Provides information on projects Accounts, treatment of projects funds and dealing with various contributions.



## CHAPTER 2



# Financial Responsibilities of Utility Officers



Kisii local authorities lead the solid waste management initiative. Photo © UN-Habitat





## 2.1 Duties of Finance and Accounts Manager

The Finance and Accounts Manager (FAM) is responsible for the efficient and effective financial management of the Utility and for the development and maintenance of the necessary systems to safeguard the assets and financial operations of the utility. The FAM's work includes but is not limited to: -

- assisting in the formulation of the policies to be adopted by the utility in financial and manpower terms;
- assisting in carrying out the financial policies of the utility;
- making recommendations concerning financial policies;
- ensuring that proper accounts and records of the utility's assets, liabilities, operations and transactions are maintained and that statutory objectives in this regard are discharged;
- keeping under review, the structure of the Utility's financial information and accountancy systems, ensuring that they are developed and maintained as viable and efficient systems meeting the needs of the utility;
- review and development of the tariff structure; working in collaboration with other key players in the utility and stakeholders.
- review and development of methods to be adopted in the implementation of revenue collection and management of same;



- ❑ controlling income and expenditure and general financial administration of the utility, ensuring that all revenues due to the utility are collected, and payments due by the utility including salaries and wages are duly made, ensuring responsible stewardship and safe custody of cash and other assets of the utility;
- ❑ ensuring the preparation, presentation and interpretation of periodic management accounts and cost statements. Advising management on matters of the controls of costs and achievement of budget plans by the provision of regular or adhoc information;
- ❑ drawing attention to any point of weakness in the utility's operations as indicated by accounting information;
- ❑ operating an effective procedure for the evaluation of capital expenditure proposals and assisting in submitting these to the relevant authorities.
- ❑ preparing capital and operating budgets;
- ❑ ensuring that management, in general, and his/her own area of responsibility in particular, operate in accordance with the approved budgets;
- ❑ providing effective financial control records on all capital projects and liaising fully with other managers;
- ❑ defining the responsibilities of all senior staff under his/her control and ensuring that they are adequately discharged;
- ❑ ensuring that training and skills development of financial staff is carried out; and



- ❑ assisting in the development of computerisation strategies and furthering the development of computer based financial accounting and financial information systems.

## 2.2 Duties of an Accountant/Finance Officer

An Accountant/Finance Officer MUST NOT in any circumstance mix Utility's and private money. He/she MUST NOT apply the utility's money to any purpose not duly authorised, nor must he/she lend, advance or exchange any sum for which he / she is accountable. He/she must see that all utility monies or other assets entrusted to him / her are kept in a safe place.

It is the duty of any officer having financial responsibilities in connection with his/her official duties, to observe the following requirements in as far as they may be applicable to his/her particular duties :-

- ❑ to fully acquaint himself/herself with the Financial Regulations and accounting instructions, and to take care that all are duly observed;
- ❑ correctly assess revenue in accordance with the relevant tariffs, and to secure its punctual collection;
- ❑ to promptly bring to account, under the proper headings of the Budget and accounts, all monies collected;
- ❑ to ensure that proper provision is made for the safe-keeping of Utility money, stamps, official receipts, requisitions, cheque



books, Local Purchase Order Books, and all other accountable documents, and assets under his/her charge;

- to exercise supervision over all officers under his/her authority entrusted with the receipt and expenditure of Utility money and to take precautions, by the maintenance of efficient and regular checks, against the occurrence of misappropriation or negligence;
- to ensure that no payment is made without proper authority being obtained and where applicable, quoted on the payment voucher;
- to check daily, all cash in his/her charge and to verify the amounts with the balances shown in his/her records;
- promptly bring to account as revenue, any cash found in his/her charge in excess of the balances shown in his/her records, and report this to the Finance Manager;
- promptly make good any deficiency in cash, or other Utility assets for which he/she is responsible not caused by misappropriation and to report all other losses and deficiencies in writing to the relevant Area Manager (if applicable), Finance and Accounts Manager, and Chief Internal Auditor;
- to charge promptly in his/her accounts under the proper heading and sub-heading all disbursements of Utility money in accordance with the current budget;
- to submit any financial statements required by Management;



- ❑ to see that all books of account, registers, records etc, are maintained in accordance with Accounting Instructions and Financial Regulations and are posted and kept up-to-date and when not in use, are kept in safe custody;
- ❑ to report to the Area manager (if applicable) and Finance and Accounts Manager any apparent defect in the system of revenue collection or any apparent waste or extravagance in expenditure which comes to his/her notice;
- ❑ to produce when required all cash, stamps, assets, securities, books of account, vouchers, or other documents in his/her charge for inspection by the FAM, his/her authorised assistants, the Chief Internal Auditor or his/her officers, or any other duly authorised personnel;
- ❑ to reply promptly and fully to all financial and other queries raised by management, giving the particulars or information required; and
- ❑ to acquaint himself/herself with such laws, regulations, Board & Management decisions and circulars as relate to his/her financial duties.

## 2.3 Pecuniary Responsibility of Officers

- ❑ All officers bear personal pecuniary responsibility for the due performance of their financial duties, for the proper collection and custody of all Utility money received by them



or under their authority, and for any inaccuracies in accounts rendered by them. No officer should be relieved from any portion of his/her responsibilities if he/she delegates to his/her subordinates the performance of duties which he/she should have performed himself/herself.

- ❑ All board and senior management decisions relating to finance must be extracted and circulated to all Accounting Officers especially to those whose duties such decisions may affect.
- ❑ The Board may surcharge any Utility employee responsible for:
  1. the loss, damage or destruction of Utility property;
  2. the wilful failure to collect monies due to the Utility;
  3. the unauthorised payment of monies belonging to the Utility.

## 2.4 Audit Inspection Duty Officers

- ❑ The Internal Auditor is responsible for regular checks and/or test checks of the financial operations of the Utility.
- ❑ The responsibility of the Internal Auditor does not absolve any officer from his/her responsibility.
- ❑ The Internal Auditor may recommend system/procedural changes to management but has no authority (except as part of the Senior Management Team) to direct management/subordinate staff to carry out such changes.

## CHAPTER 3

### Budgeting



Planning and budget session in the municipality. Photo © UN-Habitat



## 3.1 General Budgeting Policies

### **Budgets Approval**

All proposed plans and budgets should be reviewed and approved by each successive level of supervisory management.

### **Budget limits**

All spending should be within the budget limits.

### **Internal Accounting Controls**

The Finance and Accounts Manager should review accuracy and completeness of plans and budgets.

### **Budget Preparation Responsibilities**

Each Department/section is responsible for preparing their draft budgets; these should be reviewed and revised as necessary by the senior/top management, and consolidated by the Finance and Accounts Manager to produce the draft budget for submission to the Utility's Board.

### **Budget Preparation Process**

The budget should be prepared and approved in accordance with the budget instructions issued by Finance and Accounts Managers.

### **Items to be included in the Budget**

The budget should include the anticipated revenue from all sources, and all sums required to meet the anticipated





expenditure during the year to which the budget relates. It must be constructed to show as accurately as possible the amount expected which should actually be required to maintain the services of the Utility and which should actually be receivable during the year. Every cost/profit center and activity head shall include all items relating to that particular cost/profit center and activity, so as to show clearly the total estimated cost and income of that cost center and activity during the year.

❑ **Basis of Preparing Budgets**

The Utility separates their annual budgets into two components: the operating budget and the capital budget.

❑ **Format of the Budget**

The budget should be prepared in the prescribed format, and should include: -

- a. Recurrent expenditure and all that falls under this category:  
Capital expenditure budget showing: capital project, total anticipated cost and method of financing, etc
- b. Estimates for each department showing: department name and code, detail description and code of items budgeted for, current year approved budget and budget for following year;
- c. Statement of proposed tariffs, and anticipated income from each tariff classification;
- d. Estimated cash flow statement for the budget year;
- e. Detailed working papers substantiating all items included in the budget



## 3.2 The purpose of the Budgeting system

The budgeting system is important as it:

- develops realistic financial plans that should facilitate allocation of resources according to utility's activity priorities;
- provides a control tool to ensure that spending is in line with time plans and budget amounts;
- provides periodic variance reports of actual and budget amounts to form a basis for investigation and necessary decision making;
- can be used to compare and monitor cumulative expenditure by account code to the original budget allocation;
- effectively supports the improvement of the annual comprehensive business plan and its periodic review.

## 3.3 Items to be included in the budgets

Below is a list of the types of expenditure that are normally included under each estimate sheet.

### **Employees**

These are costs that can be directly attributed to employees of the company e.g. salaries, bonuses, medical costs etc.



## Premises

- Fixture and Fittings. The maintenance and purchase of minor items of fixtures and fittings within the cost centers.
- Repair and Maintenance: The expenses for Water, the operating and Electricity, upkeep of the Rent and rates, premises housing Cleaning materials, of the cost center.
- Insurance and Depreciation.

## Stationery Plant and Pipe Networks

- Fuel & lubricants; the cost of fuel, lubricants, and power required to run the stationery plant of the particular cost center;
- Repairs & Maintenance; to include all costs of repair & maintenance of the relevant plant, networks, including materials obtained from stores, costs of contactors, direct purchases of materials etc;
- Hire of Transport; to include any transport hire costs;
- Insurance and Depreciation.

## Transport and Mobile Plant

- Fuel and Lubricants, costs of Repairs and Maintenance, Hire of transport, mobile plant; Insurance, licenses, etc; vehicles, and hiring of Third parties;
- Depreciation relating to assets in this category.



## Supplies and Services and Establishment Expenses

- ❑ To include all anticipated costs for each relevant sub-head. Chemical costs particularly should be carefully assessed by reference to anticipated requirements.
- ❑ The travelling and subsistence code under this heading should include costs of travelling and subsistence which has to be specifically approved e.g. transport for travel, weekend working, lunch payments for lunchtime working etc.

## Financing Costs

This refers to costs relating to various sources of finance used by the Utility mainly borrowing costs

## Income

- ❑ In most cases there should not be any separate income or individual cost centers, as the majority of the Utility income derives from water and sewerage charges which are not cost center oriented, but related to the Utility as a whole.
- ❑ Details of water & sewerage charges income (separately) at current tariff levels need to be provided for each month and aggregated for the year on the following basis:-
  - a. Number of accounts and amounts billed for consumption charges split between water & sewerage services, where applicable;
  - b. Anticipated other billings, such as fines, connection fees etc., itemised for each type of income.



## **Capital Expenditure**

A separate statement needs to be submitted giving details of any anticipated capital expenditure. This statement needs to show the total cost of the capital project.

### **3.4 Steps of Developing a Budget**

#### **Step 1: Establish Goals**

Goals represent the ends that a Utility wants to attain. They define the desired outcome(s) or end result(s) and are typically general in nature. The Utility goals should be definitive and concise; e.g. Improvement of revenue collection from 75% to 95%.

#### **Step 2: Establish Objectives**

Objectives represent the specific results desired within a fixed period of time. They should specify what is to be accomplished, for whom, and by what date. In terms of the budget, an objective represents a targeted achievement for the forthcoming year(s). Each objective has one or more performance measure(s).

Objectives should reflect planned achievements in service quality or service level; thus, key words used in stating objectives include *increase, reduce, expand, complete, prevent, maintain*.



Goals and quantifiable objectives can be developed for the activities of individual area offices or Departments/Departments as well as for the entire Utility.

### **Step 3: Prepare a Budget Calendar**

The budget calendar establishes the process and schedule the Utility should follow in developing the budget. The calendar helps you prepare and enact the budget in a timely way. At a minimum, the calendar should indicate the dates when:

- You should distribute budget worksheets, instructions, and guidelines to departments;
- You should prepare revenue estimates;
- You should compile budget requests and summarize them into a single budget document;
- The finance committee of the Board should review budget requests and make appropriate adjustments to budget proposals; and
- The Board should adopt the budget.

### **Step 4: Define Roles in Budget Preparation**

There are three major administrative roles in the budget preparation process:


- Preparing budget proposals for consideration by the Board;
- Explaining current fiscal conditions, fiscal prospects, and budgetary proposals to the Board; and



- ❑ Implementing the budget enacted by the Board and monitoring performance to ensure that fiscal policies are followed.

The Finance and Accounts Manager (FAM) coordinates the entire budgeting process. His/her role may be of three general types:

- ❑ To serve simply as a coordinator of budgeting process.
- ❑ To perform a significant policy guidance function and become involved in all the financial issues relating to the budget. In this role, the Finance and Accounts Manager not only coordinates all materials, but also assumes analytical and guidance functions, such as:
  - a. Issuing guidelines to Department officials regarding the acceptable level of service increase or decrease and expected cost limitations;
  - b. Evaluating Department requests and adjusting them to policy guidelines;
  - c. Balancing expenditure requests with available revenues; and
  - d. Making recommendations for budget action to the Managing Director.
- ❑ Directly supervise budget implementation. The specific tasks under this role may include but are not limited to;
  - a. Ensuring that the department does not exceed budget limits by conducting periodic projections of expenditures and comparing them to available resources;

- 
- b. Maintaining a centralized position control to ensure that new staff are hired only into authorized positions and at salaries no greater than the amount designated in the budget;
  - c. Reviewing and approving all requests to transfer funds from one budget to another;
  - d. Preparing reports on budgetary performance for the use of the board, or board committees; and
  - e. Closely monitoring budget performance to determine potential problems.

### **Step 5: Distribute Forms for use in Budget Preparation**

The Finance and Accounts Manager distributes budget preparation forms and instructions to Utility Departments. Ideally, this package includes the Utility goals and objectives established in Steps 1 and 2 to guide managers in establishing funding priorities that are consistent with overall Utility priorities.

The people who manage offices should be involved in the budget process for ownership reasons that eventually make budget implementation easy.

### **Step 6: Review the Budget Requests**

The board or the finance committee is in the unique position to review all requests and must thus be prepared to establish priorities in light of major issues or potential fiscal problems facing the Utility. The review of submissions should start by ensuring that proposals are consistent





with the budget policies established at the beginning of the budget process. Typically, the sum of all budget requests should exceed the total of estimated revenues plus any estimated surplus from the current year. Departments should compete for access to limited Utility funding sources. Finance Department should have to make tough choices, but should make them in the context of the Utility's overall mission and goals.

The Finance and Accounts Manager should make sure that the finance committee and other appropriate committees receive all the materials they need to give full, effective consideration to the budget proposals presented by Managers.

## **Step 7: Prepare the Budget Document**

The *budget document* is the final product of a lengthy process, and the quality of the budget depends largely on the quality of that process. At each stage of development, the budget takes on a different form.

*Proposed budgets* are usually the most comprehensive and largest versions, because they contain critical decision-making information. *Adoption of final budget*, on the other hand, shall be a smaller summary document that you use to communicate final policies and appropriations.

*The budget is a decision-making document:* it is the basis for important policy decisions i.e. informing participants about the implications of specific actions or inactions. *Communicate budget decisions accurately and clearly.* At different stages of development, the budget reflects



inputs from different Departments and decisions made by Managers, management and finally, the Board. The budget must accurately reflect the results of this process. The budget serves as the official action plan for managers and staff charged with carrying out Utility functions and programs.

Ultimately, the budget document is the *vehicle for informing the employees, management, and other stakeholders regarding the Utility's policies and priorities.*

The Finance and Accounts Manager should format and print the budget document in a way that facilitates understanding and enhances the utility of the budget for all stakeholders. The document should be attractive, consistent, and oriented to stakeholders' needs. To this end, include reader guides, budgets in brief, and graphs and other visuals that should communicate these policies and priorities effectively. The budget should give readers an understanding of the services that the Utility is providing, the cost of these services, and the benefits they should obtain from these services.

### **Step 8: Adopt the Budget**

Once you submit the proposed budget, and the Board reviews it, it may undergo more changes until the Board approves it. Adoption of the proposed budget by the Board establishes the legal authority for administrative officials to incur expenditures in the fiscal year. The



adoption of the proposed budget is the culmination of an exhaustive review of budget proposals by the Board.

### **Step 9: Execute and Monitor the Budget**

The main purposes of budget execution are to make the appropriations authorized in the adopted budget and to monitor spending. The goals of budget execution are to:

- Provide for an orderly approach to achieve budgetary goals and objectives;
- Ensure that funds are expended only on approved activities; and
- Have adequate stewardship over entrusted financial resources.

The responsibility for budget execution rests with the Utility's Departments. They must account for the expenditures and program outputs. Responsibility for monitoring shall rest with the Finance and Accounts Manager, and Managing Director.

The role of the budget department is to identify actual problems with budget compliance and inform the implementing center(s). The role of the implementing centers is to resolve the identified problems and to provide feedback to the budget department. The budget department should then provide technical assistance and support, so that the implementing center(s) can take necessary corrective action.



### 3.5 Key factors affecting Budgeting Process

Some of the key factors, which contribute to making the budgeting process effective in practice include:

**Transparency** the budget documents provide a clear link between objectives and expenditures; all participants in the budget process are clear about their roles and responsibilities; simple, well-documented procedures; well-defined basis of budgeting e.g., incremental, zero-based etc.;

**Management** effective budgeting involves more than simply preparing annual budgets; the management and monitoring of the budget are equally important, with an emphasis on results achieved.

**Co-ordination and Co-operation** all those involved in the budget process are required to ensure links between recurrent and development budgets and the processes in the financial management system.

**Integration** of recurrent and development budgets: the recurrent costs arising from the development projects need to be built into recurrent expenditure planning and trade-offs between recurrent and development expenditure considered for sustainability.

**Flexibility** the system allows responses to changed circumstances: these responses are built into the system, so that implications of any changes are sufficiently analyzed to fit within the entity's overall objectives and priorities.



**Discipline** Although the system provides flexibility, there is also effective control over expenditures; any changes to the budget are carefully analyzed and justified; only limited use of supplementary estimates; and penalties for breach of rules and regulations.

**Accountability and Credibility** board involvement: good links between the Board and Management; involvement of accountability of senior managers in all stages of the process; if Management do not believe that they should be held to their ceilings, or if they can easily by-pass normal procedures, the whole process of budgeting can be undermined; and budgets are reliably close to actual outcome.

**Comprehensive** the budget process and documents need to include all revenues and expenses, including aid funds; as well as information on previous year's and current year's expenses.

**Performance Measurement** Measuring the impact of the budget through output performance measurements for recurrent and development expenses. Regular budgetary performance analysis to determine the extent of achievement of set budget goals is therefore necessary.

### 3.6 Key Budgeting Points to Note

It is possible to execute badly a well-formulated budget; it is not possible to execute well a badly formulated budget. However, budget execution is



more than simply assuming compliance with the initial budget. It must also adapt to intervening changes, and promote operational efficiency.

A procedure for controls is needed, but should not hamper efficiency nor lead to altering the composition of the budget. The controls must focus on what is essential while giving flexibility to spending agencies in implementing their programs.

### 3.7 Expenditure control

The budget system should assure effective expenditure control. The first step is to prepare a realistic budget and to identify measures to contain permanent commitments (such as entitlements, wages). Besides this, the budget implementation system should have the following features:

- A complete budgetary/appropriation accounting system. It is needed to track transactions at each stage of the expenditure cycle (commitment, verification, payment) and movements between appropriations or budget items (apportionment, supplementary estimates).
- Effective controls at each stage of the expenditure cycle.
- A system for managing multi-year contracts and forward commitments.
- Adequate and transparent procedures for competitive procurement and systems for managing procurement and contracting out.



### 3.8 Enforcing priorities stated in the budget

- Cash rationing should be avoided (except in an extreme emergency).
- Budget implementation and cash plans must be prepared, but they should be based on budget estimates and take into account existing commitments
- Supplementary estimates must be strictly regulated and their number limited.
- Changes between programs should not alter priorities stated in the budget.

### 3.9 Efficient budget implementation

- Budget funds should be released on time.
- Rules for changes should allow both flexibility and control over the major items.
- Carry-over appropriations should be authorized, for all expenditures, but the procedure needs to be regulated.
- Clearly defined procedures for recording transactions (notably for commitments);

### 3.10 Budget Cycle







### 3.11 Budget Preparation Procedures

Responsible Officer	Description	Documents
Finance and Accounts Manager	<ol style="list-style-type: none"><li>1. Issue approved guidelines to all Managers and Heads of Departments for preparation of annual budgets and discusses the requirements with respective staff.</li><li>2. Prepare a memorandum of guidance for budget preparation containing basic assumptions for the forthcoming fiscal period, and provide budgeting guidelines. The budgeting guidelines emphasise among other things:<ul style="list-style-type: none"><li>• The need to align department goals with the overall Utility goals as per the approved corporate plan.</li><li>• Harmonization of short term performance programmes with corporate strategic goals and other statutory requirements</li></ul></li></ol>	Guidelines include: <ol style="list-style-type: none"><li>a) Budget preparation timetable.</li><li>b) Standard rates to be used for various items;</li><li>c) Spreadsheet format and budget codes to be used.</li><li>d) Folder name and directory in the server in which budget is to be saved.</li></ol>
Finance and Accounts Manager	<ol style="list-style-type: none"><li>3. Discuss the draft budget guidelines with the different Departments.</li></ol>	Draft Budget Guidelines
Finance and Accounts Manager	<ol style="list-style-type: none"><li>4. Distribute the budget instructions and budget forms 60 days before the deadline for submission of each Department's budget.</li></ol>	Budget Guidelines
Finance and Accounts Manager/Finance Department	<ol style="list-style-type: none"><li>5. Prepare current year-to-date financial data with projections of year-end totals.</li></ol>	Current year projections



Responsible Officer	Description	Documents
Managers, and Heads of Departments	6. Submit departmental budget forms. These forms are reviewed by the FAM, for completeness and reasonableness.	Budget Forms
Finance and Accounts Manager Head of Departments	7. Hold Budget negotiations with all Managers	Departments Budget estimates
Finance and Accounts Manager	8. After review and consultations have been made with heads then the budget are returned with relevant comments/changes.	Adjusted/ Revised Budget
Finance and Accounts Manager	9. Prepare the annual Utility draft budget plan	Draft Utility Budget
Finance and Accounts Manager	10. Forward the Draft Budget to the Board which discusses and approves it.	Approved Budget
Finance and Accounts Manager	11. Receive the approved budget and makes any amendments according to comments made by the board.	Approved Budget
Finance and Accounts Manager	12. Once adopted, the approved budget totals should be entered in the General Ledger by the FAM for the new fiscal year	Approved Budget
Finance and Accounts Manager	13. Distribute approved budget to all concerned persons (cost centre managers and profit centre managers).	Approved Budget



### 3.12 Budget Monitoring and Control

Responsible Officer	Description	Documents
Accountants	1. All payments or expenses must be checked by the budgeting department or someone charged with the responsibility of budget compliance assurance to ensure that they are in accordance with the approved budget.	Monthly budget reports
Accountants	2. Every month, accountants prepare budget monitoring reports and submit them to the Management Accountant/Officer in charge of budget preparation & Compliance.	<ul style="list-style-type: none"> <li>a) Period actual</li> <li>b) Period budget</li> <li>c) Period variance</li> <li>d) Cumulative year to date actual</li> <li>e) Cumulative year to date budget</li> <li>f) Cumulative year to end variance budget</li> </ul>
Management Accountant	3. The Management Accountant performs a variance analysis of the budget and provides a report that explains all expenditure of more than 10% variance. The budget variance analysis report is forwarded to the Finance and Accounts Manager.	Budget analysis      variance
Finance and Accounts Manager	4. He/she reviews the budget analysis reports and makes recommendations for action. The recommendations are communicated to all concerned parties.	Budget analysis      variance

## CHAPTER 4

### General Financial Transactions

REVENUE COLLECTION DATA FOR 2008

WATER SUPPLY	JANUARY REVENUE KSH		FEBRUARY		MARCH		APRIL		MAY		JUNE
	BILLED/ EARNED	COLLECTED	BILLED	COLLECTED	BILLED	COLLECTED	BILLED	COLLECTED	BILLED	COLLECTED	BILLED
BONDO.	275,970	203,695	295,325	256,758	287,240	299,170	180,495	255,961			
SOUTH SAKWA.	81,485	87,070	74,125	96,520	40,140	69,230	54,620	53,945			
ASEMBO BAT.	200,45	<del>13,380</del> 17,705	20,305	15,525	22,195	21,990	15,535	40,940			

Sample of the revenue collection data 2008 records in Kenya. Photo © UN-Habitat



## 4.1 Basis of Accounting

The Utility should maintain and report financial data using any accepted accounting standards e.g. the Generally Accepted Accounting Principles (GAAP) Basis, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) etc.

### 4.1.1 Generally Accepted Accounting Principles Basis of Accounting

Generally Accepted Accounting Principles (GAAP) are promulgated by IFAC – International Financial Accounting Standards Committee.

The financial statements of the Utility should be prepared in accordance with International Financial Reporting Standards and in compliance with the National Laws & Acts.

In order to comply with GAAP, the following concepts must be reflected:

#### **Accruals concept**

Accruals basis records expenditure and revenue when they become due (i.e. in many cases before the associated cash flows take place). Before it records assets and liabilities and therefore involves with provision of depreciation on assets with finite lives and production of balance sheets.

**Matching Concept**

Is based on the assumption that period costs are expensed as incurred and matched against related revenue in the appropriate period.

**Recognition Concept**

Is based on the assumption that revenue is recognized when the earnings process is virtually complete and an exchange transaction has occurred.

**Historical Cost Concept**

Is based on the assumption that GAAP normally requires assets and liabilities to be accounted for and reported on the basis of acquisition price.

**Stable Money Concept**

Is based on the assumption that the monetary unit is relevant, simple, universally available, understandable, and useful.

**Going Concern Concept**

Is based on the assumption that the business enterprise should have a long life.

**Materiality Concept**

Is based on the assumption that an item is material if its inclusion or omission would influence or change the judgment of a reasonable person in his/her review of financial statements.



### **Cost/Benefit Concept**

Is based on the assumption that the costs of providing information must be weighed against the benefits that can be derived from using that information.

### **Flexibility**

The accounting policies and procedures must undergo regular review and revision when changes in corporate policy or governing accounting principles deem it appropriate.

## **4.1.2 Time period**

A critical point in monitoring is ensuring that transactions are recorded in the correct time period. In accrual accounting, items are recorded or 'brought to account' as soon as they are earned or incurred. (NOTE: In cash accounting, items are only recorded or 'brought to account' when actual monies are received or paid.) Similarly, transactions are included in the financial statement for the period in which they occurred—not when monies were received or paid.

## **4.1.3 Non-cash transactions**

In addition, accrual accounting entails recording non-cash transactions such as depreciation, provisions, bad debts, etc. Non-cash transactions have a monetary value and contribute to the business unit's financial position.



## 4.2 Financial reports

In accrual accounting, there are two very key financial reports. Each report provides a set of information that assists managers in their decision-making.

### **a. Income Statement**

The Income Statement reports the operating performance during the time period. It records the income and expenses for the period. In addition, it records non-cash transactions such as depreciation and movements in provisions. The Statement presents the financial outcome of operating activities for the period and allows managers to monitor that operating performance.

### **b. The Balance Sheet**

The Balance Sheet reports the financial position of the business unit. It records the current values of the business unit's asset and liabilities and reports the 'balance'.

The Balance Sheet should include accumulated depreciation on asset purchases and the provisions accumulated to meet annual and long service leave, Accounts Receivable (debtors who have not yet paid invoices raised for services delivered by the Utility) and Accounts Payable (creditors who have not yet been paid by the Utility for their services).





### 4.3 Record keeping Policies

**Accuracy** accounting records must accurately and properly reflect the true substance of all business transactions on a timely basis and in accordance with Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS).


**Chart of accounts:** are set in line with GAAP and are applied consistently on the basis of the set accounting policies.

**Clearly Defined Cost/Profit Centers** accounting records must reflect the costs and income of each function undertaken by the Utility or its specific employees or contractors.

**Control** actual results must be compared with budget(s) and the differences analyzed and evaluated in order to improve business results as well as future budgets in subsequent fiscal periods.

#### **Records**

- Cash records (Cash receipt, cheque receipt register, cheque disbursement register);
- General journal;
- General Ledger;
- Subsidiary Ledgers;
- Advance and imprest records;
- Bank account record
- Personnel records;

- 
- Registers;
  - Purchases Ledger and
  - Stock Ledger

The details of these records are explained further under Financial Records and Reports.

Other records necessary to fully document and explain the financial transaction of Utility are required to comply with the Accounting Regulations in relation to other financially expressed obligations, (for example, budgeting and annual reporting).

***Subsidiary ledgers*** shall be reconciled with the general ledger at least monthly.

There should be adequate and appropriate ***supervision*** of employees with sufficient employee backup to ensure that accounts and ledgers are adequately maintained. Those employees working within the accounting function must have the capabilities and training, commensurate with their responsibilities.

In no circumstances may erasures of any nature be made in accounting returns and books. All alterations must be made by striking out incorrect figures in ink and writing the correct figures above them; the alterations must be initialed by the responsible officer.

Correcting fluid may not in any circumstances be used to delete or amend items in the accounting records.



All official accounting entries should be made in permanent ink, ballpoint pen or printed.

## 4.4 Revenue Management

### 4.4.1 Responsible Officers

- The chief accounting officer(s) is (are) directly responsible for the collection of all Utility revenue under their control and for the general supervision of all revenue staff.
- They should ensure that proper arrangements exist for the prompt assessment, collection and bringing to account of all revenues and that appropriate measures are taken to collect arrears.
- They should ensure that revenue records/charts are kept for each revenue officer under their charge, and should issue such instructions regarding the collection of revenue, as may be necessary.
- Chief Accounting Officer(s) must constantly check on their subordinates and are not relieved of any responsibility by reason of the checks and inspections made by the Finance and Accounts Manager or Chief Internal Auditor, or other staff of the Utility.
- The Finance and Accounts Manager of the Utility has a duty to monitor the revenue systems and revenue collection of the Utility, and to take action to ensure that Utility policies and targets are met.



#### 4.4.2 Composition of Revenue

All Revenue of the Utility should be paid into the Utility bank accounts via Utility cash offices as necessary and shall consist of but will not be limited to:

- All water consumption and sewerage charges levied by the Utility
- All connection and re-connection fees for water and sewerage services
- All fees for water sales, septic tank emptying, sale of compost and sludge, discharging into sewers, sale of tender documents.
- All fines due to the Utility.
- Penalty costs and amounts recovered in respect of any prosecution or action under any Act for the operation of which the Utility is responsible or under which the Utility exercises powers to the extent of such powers.
- The rents and profits of all premises vested in the Utility, and the interest dividends and annual proceeds of all monies due, Chattels and valuable securities belonging to the Utility
- All amounts paid to the Utility by the Government whether as a grant or endowment or otherwise
- All amounts due to the Utility for the sale of Utility assets



- Any rents, forfeitures, receipts or proceeds lawfully derived by the Utility from any other sources whatever not in this section specially mentioned

#### **4.4.3 Revenue Records**

Every Chief Accounting Officer should maintain or cause to be maintained revenue records for each item of revenue in his/her current budget showing:

- Type of revenue & amount in budget;
- Amount billed for the year to date;
- Amount collected for year to date; and
- Persons responsible for billing/collection of each item of revenue.


#### **4.4.4 Collections of Revenue**

All officers charged with the supervision of the collection of revenue should furnish the Chief Accounting Officers with a monthly Return, showing the details as in 4.3.2 above.

It is the duty of the Chief Accounting Officer to study these returns and take any necessary action on them.

#### **4.4.5 Accounting for Revenues**

It is the duty of all persons responsible for the billing/collection of Revenue to see that all Utility Revenue which it is their duty to bill



and/or collect is promptly billed and/or collected and fully accounted for in the appropriate accounting records.

#### **4.4.6 Loss by Negligence**

Should Utility's revenue sustain a loss by reason of the neglect of an Accounting Officer, the circumstances should be reported to Top Management or Board and the Officer concerned may be surcharged with the amount of the loss, and otherwise disciplined.

#### **4.4.7 Allocation of Revenue**

Revenue receivable must be coded strictly in accordance with the current Budget.

#### **4.4.8 Notices Regarding Issue of Receipts**

At every collection point where money is received from the public, a notice in appropriate local languages and English shall be prominently displayed stating that a printed official receipt must be obtained at the time of payment by every person paying in money to the Utility and that only such receipts are recognised.

#### **Reconciliation to Subsidiary Records**

Monthly reconciliations must be carried out to ensure that the total of all receipt entries in the relevant cashbook equals the amount actually brought to account under the relevant revenue item for the same period.



### **Write-off of Revenue**

- All possible measures necessary should be taken in recovering amounts due to the Utility.
- Any revenue deemed to be uncollectable must be reported by the Chief Accounting Officer to the Finance and Accounts Manager/Commercial Manager, who should verify it and if necessary report to the Utility Board. Any recommendations for write-off must be supported by full details of the debt, and the reasons for its being irrecoverable.
- No debt due to the Utility can be deleted from the books until the Board or the Office in charge has so authorized.

## **4.5 Management of Monies Received**

### **4.5.1 General Policies**

The following general policies regarding the receipt of money must be observed.

- Cash receipts must be complete. Each day's receipts must be promptly collected and deposited in the bank intact the next working day.
- Cash receipt vouchers should be pre-numbered.
- An employee other than the cashier should be responsible for preparing cash count and agreeing them to cash book totals.



- Access to cash records must be closely monitored and access codes must be kept secure.
- An independent check of pre-numbered receipts should be performed regularly and should be reconciled to cash collections.
- Approval should be acquired for cash refunds.
- Cash receipts should be deposited intact in the bank. **NO** petty cash payment should be made out of the cash receipts.
- Areas where physical handling of cash takes place should be reasonably safeguarded.
- It must be assured that each receivable transaction recorded is legitimate and has supporting documentation.
- Appropriate segregation of duties and access control procedures regarding who makes ledger transactions should be followed. The person who makes postings to the general ledger must be independent of the cash receipts and accounts receivable functions.
- Proper safeguard measures should be adopted to restrict access to the account systems.
- All information included in the transaction must be verified as to amount, date, account coding and descriptions.
- Cash must be safeguarded while in the physical possession of the Utility.
- There must be appropriate personnel responsible for overseeing cash control processes.





- Reconcile pre-numbered receipts to cash collections regularly. The accounts receivable bookkeeper should be restricted from: preparing the bank deposit, obtaining access to the cash receipt books/registers and having access to collections from customers.
- Instruct banks not to cash cheques drawn to the order of the Utility.
- Authenticated deposit slips should be retained and reconciled to the corresponding amounts in the cash receipt voucher records.
- Restrict cashiers from having access to the accounts receivable records and bank and customer statements.
- The bank deposit should be made by someone other than the cashier or the accounts receivable bookkeeper.
- A person independent of the cash receipts and accounts receivable functions should compare entries to the cash receipts journal with: authenticated bank deposit slips and deposit per the bank statements.
- Copies of received cheques should be compared to the cash receipt vouchers journal for date, payee and amount.
- Ensure that a person independent of the cashier or accounts receivable functions handles customer complaints.



## 4.5.2 Receipts

A receipt voucher shall be issued on receipt of both cash and cheque payments. The receipt shall be filled in triplicate where the original is given to the payer; the second copy is filed in a box file as support for the accounting entry and the third copy is held in accounts section for postings into the general ledger.

All receipt books shall be pre-numbered in numerical sequence and be used in that order. They shall be kept in the safe by the Manager Finance and Accounts who shall authorize their use.

All cash received must be properly receipted and banked intact. Regularly a comparison should be made by comparing the day's cash receipt vouchers to the day's banking slips. Explanations should be obtained for any discrepancies between the two records.

### **Recording of monies received**

The following policies should be followed when recording monies that have been received.

- All money received shall be recorded by an entry for each individual transaction.
- The payer shall be issued with a receipt upon request.
- The receipt and cash receipt record shall indicate the mode of payment, i.e. cheque, cash, etc.
- Receipts shall be issued in numerical sequence.




- Details of each receipt shall be retained for the period as dedicated by company policies or governing laws of the country.
- Details of each cancelled receipt shall be retained for the period set down in Financial Records and Reports.
- Posting to the cashbook should be promptly made and subsidiary ledgers updated.
- Posting to the Ledgers should be done promptly.

#### **Maintaining Physical Security of Cash**

The following policies must be observed in maintaining physical security of cash

- Ensure proper segregation of duties of key personnel. Each of the following duties and responsibilities should ideally be segregated:
  - a. Cash receipts
  - b. Bank deposits
  - c. Bank reconciliation
  - d. Posting of deposits
  - e. Cash disbursements
- Closely monitor access to the cash register and keep access codes secure.
- An employee other than the register worker should be responsible for preparing register count sheets and reconciling them to register totals.

- 
- ❑ Review the entity's records of the numerical series of printed pre-numbered receipts, and verify that these receipts are used sequentially (including voided documents).
  - ❑ Observe cash receipting operations of area offices.
  - ❑ Prepare and analyze an inventory of all imprest and change funds by purpose, amount, custodian, date and location.
  - ❑ Periodically use comparative analytical reviews to determine which functions have unfavorable trends.
  - ❑ Determine why revenue has changed from previous reporting periods.
  - ❑ Confirm manager responses by using alternative records or through substantive audit tests.
  - ❑ Adhere to a communicated policy of unannounced cash counts.

## 4.6 Remittances

### 4.6.1 Banking of Remittances Management

- ❑ All money received by an officer or employee of the Utility must be paid into a Utility bank account.
- ❑ Money received by or on behalf of Utility must be banked daily, as soon as practicable on or after the day of receipt.
- ❑ Detailed records of the Utility's banking activities must be kept.



- Banking shall be reconciled with receipts.
- All Utility's banking should be collected and delivered to the bank on the subsequent day.
- In instances where there are unavoidable delays, all banking should be deposited in the overnight safe in the strong room.
- Banking should be carried out on a daily basis to ensure that cash held on the premises is limited.

#### **4.6.2 Maintenance of Bank Accounts**

- The banking officers should obtain the bank statements from the bank at the end of every week. The statement should be scrutinized for any direct entries and any debits and credits not in the General Ledger cashbook should be posted to the correct accounts. These direct entries on the bank statement normally include bank charges, ledger fees and interest income.
- At the end of every calendar month a bank statement should be obtained from the bank. The statement should be scrutinized for direct entries. The direct entries, for which details have been obtained, should all be posted to the general ledger and a bank reconciliation statement prepared basing on the updated cashbook balance.



### 4.6.3 Security of Cash In Transit

The following rules must be followed for conveying cash between two points:-

- ❑ Only the officer directly responsible for the cash is permitted to convey it; the cash may not be given to another officer, except in accordance with laid down handover and banking procedures. It must not be handed over to the messengers etc or junior staff.
- ❑ A second officer must accompany the officer carrying cash, and where necessary police/security escort must be arranged.
- ❑ Wherever possible transfers of cash to/from establishments should not be made on fixed days, at fixed times, or along fixed routes. This is intended to make predictability difficult for people who may wish to way lay the persons transporting the cash.

### 4.6.4 Information

The entries to be passed in the cashbook are as follows:

**Recording bank charges:** Dr. – Bank Charges, Cr – Bank Account  
(General Ledger)

**Recording of Ledger Fees:** Dr – Leger Fees/Bank Charges, Cr – Bank Account (Ledger)



**Recording of Interest Income:** Dr. – Bank Account (General Leger),  
Cr – Interest Income Accounts


## 4.7 Bank Accounts and Cheques

### 4.7.1 Checks to be carried out before accepting the cheques

- Any officer accepting a cheque must ensure that:-
  - a. the cheque is correctly dated (i.e., not out of date or post-dated).  
Stale cheques, that is, cheques that are more than 6 months old on date of presentation to bank, may on no account be accepted;
  - b. the amounts in words and figures agree;
  - c. the cheque is signed by the drawer;
  - d. the cheque is not torn or mutilated;
  - e. alterations of any kind are signed in full by the drawer.  
No cheque may be accepted until it has been examined in accordance with the above.
- Cheques must be drawn in favour of the Utility
- The customer number and telephone contact must be written at the back of the cheque.

### 4.7.2 Responsibility of Officers accepting Cheques

An officer of the Utility accepting a cheque, which is subsequently dishonoured in payment of revenue, may be held responsible for any



resulting loss, if found guilty of neglecting the guidelines described above.

### **4.7.3 Use of Bank Accounts**

The use of Utility bank accounts for other than official transactions is prohibited. In no circumstances may Utility money be lodged in a private bank account, nor may private money be lodged in a Utility bank account.

#### Signatures for Withdrawals from Utility Bank Accounts

- ❑ All cheques for payment of sums due by the Utility and other withdrawals from Utility bank accounts shall be signed by at least two authorized people. A Utility may have a number of authorized Senior staff, two people may be designated as the principal signatories and others emergency signatories who sign only in the absence of the principal signatories. The signatories may include :-
  - a. Managing Director
  - b. Technical Manager
  - c. Finance and Accounts Manager
  - d. Utility Secretary





- ❑ The Utility Board may approve alternative or additional signatures to the above on recommendation by the Managing Director.

### **Custody of Cheque Books**

Cheque books, when not in use must be kept under lock and key in a strong-room, safe or steel cabinet under the sole custody of the Chief Accounting Officer or his/her delegated officer. Care must be taken at all times to ensure that cheques cannot be extracted for fraudulent purposes.

### **Spoiled and Cancelled Cheques**

When a cheque is spoiled or cancelled it must be stapled to the counterfoil remaining in the book.

### **Stale Cheques Drawn on Utility Accounts**

The currency of stale cheques drawn on a Utility bank account not must be extended. Stale cheques should be cancelled by a journal entry crediting the expenditure head to which the voucher was originally debited, and debiting the cash account. Cheques so cancelled should not be re-issued automatically but only on application from the payee.



If a cheque is re-issued it should be debited to the Expenditure head credited by the journal entry.

### **Replacement of Lost Cheques Drawn on Utility Bank Accounts**

- When the cheque is reported lost, it should not be replaced until the Chief Accounting Officer satisfies himself that the cheque has not been cashed. He/she should request the bank to stop payment of such a cheque and await confirmation from the bank (in writing) that the cheque has not been cashed, and that a stop has been placed upon it.
- Before a cheque is re-issued, the payee must sign an indemnity to the effect that should it be discovered that the lost cheque had been cashed by him/her, he/she should refund to the Utility the amount paid to him/her on the replacement cheque.

### **Deposit of Cheques in Bank**

Officers depositing cheques at a bank should enter on the bank paying in slip:

- the name of the Utility and Account number;
- the amount of each cheque;
- the name of the drawer;
- the drawer's bank



### **Bank Transactions to be brought to Account**

All withdrawals from or deposits in a bank account must be entered in the cashbook for the same day whenever possible. If not possible they must be clearly cross-referenced to the bank statement date.

### **Reconciliation with Bank Account**

- Bank accounts must be reconciled with the balance in the cashbook monthly within 10 days (by 10th of the next month) as soon as the complete Bank statements for any month are received. The reconciliation statement must detail all outstanding cheques, outstanding debits and credits and fully explain any differences between the balances. A copy of the reconciliation statement must accompany the monthly trial balance.
- Bank statements must be obtained as frequently as possible, and in any case not less than weekly. Particularly at the month end, statements must be obtained quickly and reconciled with the cashbook by the end of the first week of the following month.
- Action must be taken to make the necessary entries in the accounts to rectify the differences between the bank statement and the cashbooks. In particular direct debits and credits to bank statements must be brought into the cashbook and ledger accounts.



## **Dishonoured Cheques – Initial Action**

- ❑ A dishonoured cheque must not be returned to the drawer until cash or a bank guaranteed cheque has been received in exchange. Future cheques from persons whose cheques were returned by the bank endorsed “Refer to drawer”, should only be accepted when such a person tenders a bank guaranteed cheque - i.e. a cheque endorsed by the drawer’s bank to the effect that funds are available.
- ❑ Each step taken in pursuing the recovery of the amount due should be noted on the R.D. cheque form, so that on “at a glance” record of recovery action taken is available.
- ❑ Action on the clearance of returned cheques must not be delayed, and if clearance has not been effected within four weeks, they must be written out of the accounts.

## **4.8 Payment – General**

### **4.8.1 General Payment Procedures**

#### **Payment Vouchers**

All payment must be supported by vouchers in the prescribed form and receipts must be obtained for all cash payments at the time of payment.



### **Preparation of Payment Vouchers**

The following should be observed:

- All payment vouchers must be numbered with the cheque number.
- All payment vouchers should be filed in numerical order immediately after payment has been made. Under no circumstances should vouchers be left unfilled in the office.
- Payment vouchers should be prepared in ink, ballpoint pen or should be printed.

### **Particulars Required on Payment Vouchers**

- All payment vouchers should contain full details to explain the reason for the payment, and to show that the amount is correct and properly chargeable to the specified heading
- Payment vouchers must show some reference to the authority for the expenditure (e.g. supporting documents, minute, reference, contract number).

### **Documents in Support of Payment Vouchers**

All documents in support of a payment voucher including invoices, LPO, and specific authorities must be attached to payment voucher



## **Invoices and Purchase Orders to Support Payment**

The following should be observed:

- Where applicable, vouchers must be fully supported by original invoices. Statements of accounts should not be accepted for payment purposes.
- Should the original invoice be mislaid, a duplicate must be obtained and certified to the effect that the original cannot be traced and that payment thereof has not previously been made.
- All payment vouchers, in respect of purchases must have the specified copy of Local Purchase Order, certificate of completion (in case of works ) and inspection report complete with copies of delivery notes, where applicable, in case of supplies & services.
- In cases where purchases are made for cash, the receipt or cash sales slip must be attached to the payment voucher

## **Signature on Payment Vouchers**

- The originals of Payment Vouchers must be signed by the person preparing the voucher, authorised in full by the responsible officer, countersigned for payment by the Finance and Accounts Manager & checked by the Internal Auditor. The signatures must be in permanent ink or ballpoint pen.
- The signature of the responsible officer on a payment voucher certifies that the voucher is correct in every respect. In




particular, the person certifying the voucher is responsible for ensuring that:

- The services specified have been have been duly performed.
- The rates charged are either according to contract or approved scales or fair and reasonable.
- The amount is correctly chargeable to the allocation code quoted on the voucher.
- The computation and castings have been verified and are arithmetically correct.
- The person named in the voucher is entitled to receive payment
- All proper deductions including the repayments of advances or other liabilities have been duly made.
- The payment complies with Financial Regulations and any other laid down procedures

#### **Incorrect Payments**

- No officer should sign a payment voucher or incur any charge unless he is satisfied that there are sufficient budgeted funds available to meet the proposed payment. If the need had not been foreseen at the time of budgeting then a budget re-allocation (foregoing an item or more in the budget to cater for the new need) or a supplementary budget must be made.
- Any Officer making, allowing or directing any disbursement without proper authority should be held personally responsible



for the amount, and any officer whose duties require him to render accounts should similarly be held personally responsible for any inaccuracies in those accounts.

- All material alterations in payments vouchers must be initialled by the certifying responsible officer.
- The counter signatory for payment should satisfy himself as far as possible that proper authority exists for payment, and he/she should ensure that authority is quoted on the voucher itself.

#### **Payments by Cheque**

- All payments must as far as possible be paid by crossed cheques drawn on the Utility's bank Account.
- All payments to local suppliers, Government departments and other institutions should be by crossed cheques, made payable in the name of the payee.
- Cheques must be drawn in strict numerical order.
- Cheques should be made out to the payee exactly as per the payment voucher.
- All cheques drawn must be listed on a cheque schedule/ confirmation letter in quadruplicate (4 copies) in cheque number order. The cheque schedule must show exactly what





is written on the cheque. Any cancelled cheques must also be shown on the schedules.

- ❑ Procedure for drawing cheques:
  - a. All vouchers for cheques to be drawn to be totalled by the drawing officer to arrive at the “vouchers total”.
  - b. Cheques are written for each voucher (or group of vouchers) and the cheque amounts are then totalled by the drawing officer, to ensure that they agree to (a).
  - c. Cheque schedule/confirmation letter is typed, and agreed total as at (a) and (b) inserted as the schedule total.
  - d. Cheque schedule/confirmation letter is cross-checked by the drawing officer to the cheques, and added up to ensure that its total does agree to (a) and (b) totals.
- ❑ Cheque schedules/confirmation letter (Appendix example) should show:
  - a. Name of the Utility.
  - b. Columns for cheque number, payee, amount, signature and identity card number of person receiving cheque.
  - c. Total amount of cheque schedule in words and a summary of the cheque numbers included on the cheque schedule.
  - d. Bank account number on which drawn.
  - e. Signatures of the persons signing the cheques.
  - f. Indication of Utility seal space.
  - g. Date of schedule.
  - h. When a cheque schedule goes over one “page”, the cumulative carried forward and brought forward totals are to be put on



each schedule. The “final” page should show the total of the cheques drawn (including the brought forward totals). Each “page” of the schedule is to be signed by the cheque signatories.

- “white-out” amendments to any part of the cheque schedules are not permitted. Any amendments must be done by crossing through the original entry and retyping or rewriting in the corrected entry. All amendments must be initialled by the cheque signatories.
- Salaries and wages cheques should be drawn on discrete schedules, so that the total of the cheques drawn agrees to the net salaries/wages due shown on the salaries/wages summary sheets.
- when signing cheques, the following should be verified:
  - a. Payee on voucher/cheque stub/cheque/cheque schedule are exactly the same.
  - b. Amount on voucher/cheque stub/cheque/cheque schedule are the same.
  - c. Words and figures on cheque agree and date is correct.
  - d. Cheque has all necessary stamps/crossings etc on it.
  - e. Correct cheque numbers are on schedule and voucher.
  - f. Vouchers are properly authorised and stamped “paid”.
  - g. Cheque schedule addition is correct, words and figures agree, and correct cheque numbers are entered.
  - h. Ensure that vouchers/cheques/cheque lists etc have been audited.



- i. Ensure that any prior cheque signatory/signatories has properly signed in all appropriate places.

### **Examination of Payment Vouchers**

All payment vouchers should be examined by the Finance and Accounts Department, and by internal audit, to ensure that the required documentation is present, and that the payment voucher is correctly coded, arithmetically correct and that budgetary provision has been made. The examining officer should initial the payment voucher in the relevant place.


### **Lost Payment Voucher**

If a payment voucher is lost, a replacement voucher must be prepared and must bear a certificate to the effect that the original has been lost, with an explanation of the circumstances & stating that payment has not been previously made. . If supporting documents are lost, certified copies must be provided.

### **Payees**

The following should be observed

- Payments should be made only to the person/firm named on the supporting documents and the relevant payment vouchers or to their legal finances. In the latter case, authorities, such as powers of attorney, letters of administration, etc, must be presented to the certifying officer and be recorded on the



vouchers or, if possible, the authority itself should be attached to the voucher.

- Payment vouchers should remain in the relevant files in the custody of Utility officers at all times, and should not be released to payees, or other unauthorised personnel.

### **Receipts for Payment**

- Receipts for payment made in cash (e.g. personal emoluments and imprest payments) should be obtained at the time of payment. Receipts for crossed cheque payments should be obtained by means of a signature for the cheque on the cheque list.
- Payees must identify themselves by means of an identity card or similar documents.
- When payment has been made on a voucher (whether by cheque or cash), the officer who has made the payment must stamp the voucher with the word “Paid” and initial it.

### **Identification of Payees**

Paying officers must satisfy themselves that the person claiming the payment is the person authorised to receive the amount. The receipts must therefore identify themselves or be identified by the payees.

### **Payments by Cash or by Cheque**

All payments on a single payment voucher should be made either by cash or cheque(s) but not by a combination of both methods. One



cheque may cover any number of payment vouchers and one payment voucher may cover any number of invoices, provided they refer to the same person or firm.

### **Contracts and Agreements**

- In the case of payments in instalments in respect of contracts for construction work etc., each payment voucher should show the full contract price, reference to the contract, the number and amount of the instalments now to be paid, the amount of previous payments made against the contract, and a certification that the payment has been entered in the Contracts Register.
- In cases where a single payment is covered by a Special authority - e.g., Utility minute reference, the authority must be quoted on the voucher.
- The chief accounting officer or the person with such delegated authority shall maintain a Contracts Register in the form prescribed and all contract payments must be entered in this prior to payment.

### *No Officer Sign Payment Vouchers for Payment to Himself/Herself*

No officer should certify and pass for payment a voucher made payable to himself/herself, unless it is in relation to his/her rights & privileges & there is another party certifying the payment.



### **Payments period**

- All payments should be made, as much as possible, within the Utility's defined payment period.
- Discount allowed on any account should be deducted and the voucher made out for the net amount. Officers may be called upon to refund any loss occasioned through the late payment of an account.
- Any negligence or delay on the part of an Officer in presenting claims or in furnishing completed vouchers may result in the claim or voucher being totally or partially disallowed. Disciplinary action should then be taken against such a person.

### **Authorised Bank Account Signatories**

- The Board on the advice of Top Management should decide on the authorised bank account signatories. All cheques or other funds transfers to 3<sup>rd</sup> parties should require to be signed by two valid signatories.
- The Utility's bankers should be informed of all approved signatories, and should be provided with specimen signatures. Signatories cannot be changed without the express approval of the Board/Top Management



## **4.9 Control and Use of Official Receipts**

### **4.9.1 General Information**

#### **Definition of Official Receipt**

The term official receipt covers all revenue earnings books of any kind. This includes all receipts, licences, certificates, permits, tickets, etc, used for the collection of revenue.

### **4.9.2 General Policies**

#### **Security of Official Receipts**

Receipts, when not in use, must be kept under lock and key at all times. They should be considered cash and should be treated as such. The officer to whom official receipts are issued is personally responsible for their safekeeping and must ensure that adequate measures are taken to safeguard them at all times.

#### **Orders for Official Receipts**

Whenever revenue earning books and receipts are required, the supplies section shall place an order only after approval by the Finance and Accounts Manager that the items are required. Orders should only be placed with reputable printers.

Prior to delivery of such supplies, the printer should inform the Finance and Accounts Manager of the date and time of delivery, so that arrangements can be made for Finance Department and Audit Department attendance at the delivery. Only designated officers,



authorised by the Finance and Accounts Manager should be allowed to take delivery of receipts.

#### **Stocks of Revenue Earning Books and Receipts**

- The main stocks of unused official receipt forms received should be under the control of the Finance and Accounts Manager.
- The Finance and Accounts Manager should cause stock to be taken of all Revenue earning books and receipts on hand, at least once per month, to ensure that adequate stocks are available, and that minimum stock levels are being complied with.
- Sufficient notice of order should be given in respect of all such to ensure their availability on the required date.

#### **Register of Unused Official Receipts (Accountable Stationery Register)**

- The Finance and Accounts Manager shall maintain a Register of unused Official receipts. Every receipt, issue, return and re-issue of receipt Books, ticket books etc., must be recorded in the Register, each book being entered separately. Every issue and re-issue must be signed for separately by the recipient.
- The Register shall show the dates of receipt and issue, the serial numbers of each book, the officer to whom the books are issued, the date of return by those officers, the serial numbers of any cancelled receipts and maximum and minimum stock levels. Separate folios must be used for each different type of






receipt book, and sufficient folios must be left between each type to allow for future use. An up-to-date index should appear at the front of the Register.

### **Control of Official Receipts**

- On receipt of new official Receipt Books, tickets, etc, they should be individually checked against the original order and entered separately in units of issue (i.e. books, rolls etc) in an Accountable Stationery Register in number order. Separate pages must be used for the various denominations.
- When receipts which are grouped into books or rolls are issued to an officer, a separate signature must be obtained for each book/roll issued from the Accountable Stationery Register (ASR).
- All receipts/receipt books should be issued from stock in strict numerical sequence.
- Only designated officers authorised by the FAM should be issued with accountable stationery.
- If the officer receiving the receipt books is to re-issue them to another authorised officer (e.g. a Cashier), he/she should, on receipt of the books, take the books on charge in his/her own Accountable Stationery Register. Separate pages should be used for different values of receipts.
- A supplementary ASR as per (5) above should be maintained by all officers who re-issue unused receipts to other authorised officers. Before any receipt books are issued to them the



Issuing Officer must first ascertain whether there are any books outstanding and that all receipts previously used are accounted for. Should the supplementary Accountable Stationery Register reveal that a particular officer has certain books outstanding, the officer should be called upon to produce such books before any further issues are made.

- When completed receipt books are returned to an Issuing Officer they should first be marked off in the Supplementary Accountable Stationery Register. Completed books should be returned to the Utility Headquarters after the Issuing Officer has satisfied himself that all receipts issued had been accounted for, and they should then be marked off in the main ASR, by the officer responsible for its maintenance.

#### **Number of Receipt Books, Receipts Issued**

No more receipts of any type should be issued to an officer than he/she needs for his/her current requirements. Account should be taken of the frequency with which he/she is required to pay in his/her collections and the number of receipts issued at any one time should be based on his/her normal requirements for the period concerned. Any receipts surplus to requirements must be returned immediately to the office of issue.



### **Issue of Official Receipts by Persons Authorised**


- Only persons authorised to do so should issue official receipts. Such authorisation should be in writing, from the relevant Chief Accounting Officer.
- All official receipts for which money is received should be issued in the prescribed form.
- Every officer charged with the duty of collection of cash in the Utility or the issue of receipts for direct credits to the Utility accounts should give a receipt in the prescribed form for each sum paid to him or appearing as a direct credit. Every original and copy or counterfoil of a receipt should bear the date, full details of the payment and the signature of the receipting officer.
- Good carbon papers must always be used when drawing receipts to give a clear impression on the copies.

### **Issue of Official Receipts in Sequence**

Receipts should be issued from Official Receipt Books in strict serial number order. Only one book of each type should be in use at a time.

### **Particulars required on Official Receipts**

Full particulars must be shown on all receipts issued. Care must be taken to see that all calculations and allocations are correct and that the receipt is signed by the issuing officer and stamped with the official



stamp. If payment is by cheque the relevant details must be shown on the receipts.

### **Preparation of Receipts**

Receipts should be made out in ink, ballpoint pen or printed. Erasable pens are not to be used.

### **Receipts - To Whom Issued**

Receipts must be issued in the name of the person, firm, authority, etc, from whom the payment is actually due.

### **Handing Over of Official Receipts and Receipts Books**

When revenue duties are handed over by one officer to another, a certificate signed by both officers is required in respect of all official receipts and Receipt Books on charge to the officer. The certificates should be supported by detailed lists showing the quantity and serial numbers of each type of receipt.

### **Unofficial Receipts Forbidden**

Temporary Receipts, receipts, tickets or licences, in other than the prescribed form must not on any account be given or issued. The issue of unofficial receipts is forbidden.

### **Accounting for and Paying In of Receipts**

- When receipts are issued, they are entered in the Cashbook.  
Receipts issued during the day by the responsible officer should



be entered in sequential order on the receipts side of the Cashbook.

- ❑ Officers are strictly prohibited from advancing, lending or otherwise utilising any money, for which they are answerable to the Utility.
- ❑ The accounting officer must ensure that all monies collected and in hand agrees with the total of cash receipts issued.
- ❑ If it is found that the cash collected exceeds the amount for which cash receipts have been issued and the difference cannot be traced, the surplus must be paid in as miscellaneous income. Where the cash is less than the amount for which cash receipts have been issued, the accounting officer must pay in the difference and report the fact in writing to the Chief Accounting Officer.
- ❑ Refunds of such amounts, where the error is subsequently discovered, may only be made if the discrepancy was reported to him at the time of paying in.
- ❑ The accounting officer should pay in each day's cash receipts to the bank on the same or the following working day. Such banking must be intact, and must agree to the total cash receipts issued.
- ❑ All transfers of cash from one officer to another must be under signature of receipt.



### **Loss of Cash/Official Receipts**

- ❑ If a loss or shortage of Cash is discovered, (other than as a result of a surprise cash check) the matter must be immediately reported in writing to the Chief Accounting Officer.
- ❑ The loss of any book of receipts, licences, or tickets (whether used or not) must be reported to the Chief Accounting Officer immediately by the officer responsible for its custody with a full report.

### **Alterations to Official Receipts**

No material alterations can be made on a receipt. If for any reason a receipt is wrongly prepared it should be cancelled and a fresh receipt made out. The originals of the cancelled receipts should be left in the book for audit purposes.

### **Spoilt Official Receipts**

On no account may a receipt be destroyed. Spoilt receipts must be cancelled and left in the receipt book.

### **Cancellation of Official Receipts**

When a receipt has to be cancelled, all copies with the same serial number should be endorsed “CANCELLED” between bold lines. A note of all cancelled receipts should be made in the Cash Book and the



Accountable Stationery Register. All copies of cancelled receipts should remain in the relevant receipt book.

#### **Loss of or Damage to Unused Official Receipts**

Applications to write off lost or damaged unused receipts should be submitted to the Chief Accounting Officer and Finance and Accounts Manager with a copy to the Chief Internal Auditor. Full particulars of the loss or damage must be given.

#### **Destruction of Used Official Receipt Books**

All used receipt and licence books should be kept safely until disposed of on the instructions of the Finance and Accounts Manager.

#### **Destruction of Obsolete Unused Official Receipts**

When unused receipts have become obsolete, application should be made to the Board via the Finance and Accounts Manager for their destruction. The Finance and Accounts Manager should supervise the burning of obsolete receipt books, having first examined the receipts to see that they are complete. He/she should prepare a list in duplicate showing separately by type the serial numbers of each book, and certify on the list that all books appearing thereon have been destroyed.

One copy should be retained by the Finance and Accounts Manager, and one copy sent to the Chief Internal Auditor. If a book of obsolete receipts has been partly used, the unused receipts should be torn out



(the numbers of such torn out unused receipts should also appear on the list).

#### **Storage of Used Official Receipt Books**

All used receipt books must be retained under secure conditions and filed in numerical order until they can be destroyed in accordance to existing laws & Utility policies.

## **4.10 Safe Custody of Cash, Stamps, Accountable Documents**

### **4.10.1 General Policies**

#### Responsibility for Provision of Facilities for Safe Custody

It is the duty of every Chief Accounting Officer, to ensure that all staff under his/her responsibility who are required to handle Utility money, stamps, official receipts, etc., are provided with proper safe custody facilities.

#### Safe Custody of Cash/Stamps, etc

- Utility money in any Utility office shall be kept under lock and key in secure accommodation in charge of one officer only who should be directly responsible for it.
- Responsible Officers should bank all money received intact. No accounting officer should maintain a larger cash balance of Utility money than is actually necessary.





- ❑ No accounting officer is allowed to take home with him/her for safe keeping any of the Utility monies nor keep the Utility monies anywhere other than in a safe, cash box etc. authorised and provided by the Utility for such purpose.

#### **Safe Custody of Accountable Documents**

Cash books, official Receipt books, Cheque books, Purchase Orders, loan agreements, mortgage deeds, title deeds and other accountable documents, must be kept under lock and key at all times when not in use.

#### **Custody of Keys of Strong rooms, Safes Etc.**


Officers holding the keys of strong rooms, safes, cash boxes or steel cabinets are personally responsible for their safekeeping. Except when officially handed over to another officer, keys must not leave their personal possession.

#### **Custody Of Keys of Strong rooms, Safes, Etc.**

No strong room or safe may be opened by an officer other than the authorised “key-holder” who must remain present while it is open. Where there is more than one “key-holder” all must remain present.

#### **Only Utility Money and Other Assets to Be Kept In Strong-rooms Or Safes**

- ❑ The keeping of private money or effects in Utility safes, or strong-rooms, is forbidden. Any such money found in a strong room, safe, cash box, etc, should be brought to account as



a credit, by means of a general receipt, to the Miscellaneous Income Budget Head.

- Utility officers should not mention to any person the amount of cash they carry.

#### **Security and Maintenance of Strong room Doors, Safes, Cash Boxes and Steel Cabinets**

Responsible Officers must ensure that their strong room doors, safes, cash boxes and steel cabinets are maintained in good working order.

#### **Losses of or Damage to Strong-room Doors, Safes, Cash Boxes and Steel Cabinets**

Losses of or damage to safes, cash boxes, strong-room doors and steel cabinets should be reported immediately to the Supervising Officer who should submit a report to the Finance and Accounts Manager, with a copy to Chief Internal Auditor.

#### **Duplicate Keys**

Duplicate keys of all strong-room doors, safes, cash boxes and steel cabinets should be held in a cash box to which only the Finance and Accounts Manager has a key, under the Utility Secretary's safekeeping.

#### **Lost Keys**

- The loss of a key of a strong room, safe or cash box should be reported immediately to the Chief Accounting Officer who should ensure that the safe is sealed in the presence of the key



holder and to Police. The person responsible for losing the key may be called upon to meet replacement costs.

- ❑ If it becomes necessary to break open the strong-room, safe or cash box, this should be done in the presence of the key holder, police, Chief Accounting Officer and Chief Internal Auditor, and a full list of contents made and signed by all attendees.

#### **Suspected Interference with Keys or Locks**

- ❑ If a key holder has a suspicion that the key or lock of a strong room, safe or cash box in his/her charge has been interfered with, he must remove the contents to another safe where possible and report the circumstances immediately.
- ❑ In all cases where a strong room, safe, etc., key is handed over from one person to another, whether temporarily or permanently, the contents of the strong room, safe, etc., should be checked by both the incoming and outgoing officer and a Handing Over Certificate signed by both officers. Both officers must be present at all times while the handing over takes place. Details of keys handed over should also be shown.

#### **Register of Articles in Safes**

A register should be kept in a safe or strong room of any article of value kept in the safe or strong room, such as fixed deposit receipts, contracts, and insurance policies. Any person depositing or withdrawing articles of value should sign the register.



## 4.11 Petty Cash Funds


### 4.11.1 General Policies

All payments made out of petty cash must be made in accordance with the Utility policy governing petty cash use – mainly to cater for emergencies.

- ❑ Petty Cash funds represent specified amounts of cash set aside to facilitate disbursements for relatively minor transactions and small expenditures generally that should be made in cash.
- ❑ Petty Cash/Imprest are sums advanced to Utility personnel to enable them to meet anticipated but emergency official expenditure on business.
- ❑ Petty cash payments are designed to reduce workload in acquiring and paying for small value purchases. The maximum authorization should not be more than the designated amount unless exceptional circumstances exist.
- ❑ The Head of Finance and Accounts is responsible for determining the necessity for establishing petty cash funds, controlling the petty cash funds outstanding, and maintaining petty cash funds at the minimum balances required for the purpose intended.
- ❑ Each petty cash fund should be the responsibility of a single person who should have access to the fund (to the extent practical).



- Cash funds must have adequate safeguards relative to the size of the fund. In general, the fund should be maintained in a locked box or cabinet with access limited to one person.
- Petty cash vouchers should be prepared in ink and signed by the person receiving the reimbursement from the fund.
- Original receipts must accompany vouchers to support expenditures, except for minor items for which receipts are not reasonably obtainable.
- An authorized individual other than the petty cash custodian must approve expenditures and advances for expenditures prior to disbursement.
- Petty cash transactions shall be recorded and supported by vouchers.
- The recipient of the petty cash should be required to sign a petty cash voucher and provide supporting documentation when claiming.
- Receipts and invoices presented to support petty cash purchases must quote the suppliers where appropriate.
- The policy with respect to payments from petty cash funds should:
  - The maximum amount payable from petty cash should be stated.
  - Two employees of the Utility must sign petty cash cheques. The custodian may not sign the cheques. The custodian is



responsible for the preparation and reconciliation of petty cash payments.

#### **4.11.2 Operation of Cash Payments Imprest**

- When the imprest is issued, a cheque for the amount of the imprest is drawn, and a personal account in the general ledger in the name of the imprest holder debited. The imprest holder should sign for the receipt of the imprest.
- The imprest holder should maintain a petty cash book, showing all receipts into the imprest and all payments out of it. Payments should only be made out of the imprest on the basis of properly certified cash payment vouchers.
- The imprest holder should retain the payment voucher.
- Periodically, the imprest holder should claim for re-imbursment of the imprest. The amount claimed should be the amount paid out of the imprest, as supported by imprest payment vouchers. Re-imbursment should be by cheque following the cheque payment system. This payment should be coded to the various codes shown on the imprest payment vouchers.
- The imprest holder should be personally responsible for the imprest advanced to him. He/she should be responsible for balancing it each day, to ensure that retained cash and payment vouchers total to the imprest amount. The imprest must be kept in a locked cash box in secure accommodation.




### **4.11.3 Temporary Imprest**

- Temporary imprest is issued for specific purposes, and must be retired immediately that their necessity for such purpose ceases. They must not be used for any purposes other than that for which they are issued; notwithstanding that such other purposes may be official Utility business.
- An imprest advance should be made on the written authority of the Chief Accounting Officer, on receipt of an application in writing from the officer concerned.
- The amount of the advance should be limited to a reasonable estimate of the costs to be incurred.
- The Finance and Accounts Manager is responsible for ensuring that an imprest is accounted for within one week (or any other time agreed time) of its necessity ceasing. Failure by the employee to retire to comply should result in the deduction of the total advance outstanding from his/her salary.
- All disbursements out of an Imprest must be accurately recorded and at any time, the total of disbursements plus cash remaining, must agree to the Imprest amount.

### **4.11.4 Petty Cash Replenishment**

- The petty cash fund should be reimbursed, as often as necessary, by processing a payment voucher form. Replenishment of the fund is accomplished by processing



a direct claim payment voucher and supported by required documentation:

- Expenditure totals;
- The Petty Cash Reconciliation form.
- The Petty Cash Summary should contain the summary of all the payments made out of the petty cash. This should be attached to the petty cash replenishment request. The replenishment should be for an amount equal to the payments made so that at any one time the petty cash does not exceed the maximum allowable amount.
- The imprest holder shall ensure accountability of the imprest(s) issued to him/her, including the submission of all necessary claim forms, receipted invoices etc.
- Any claims which cannot be substantiated should not be allowed as a charge in the accounts, and any such sums should be recovered from the officer concerned.
- No imprest may be advanced to an employee where a previous imprest is still outstanding.

#### **4.11.5 Information**

The following entries should be made on replenishment of petty cash:  
On posting of the expenses to the correct account

Dr.- The various expenses Accounts as shown on the summary sheet  
e.g.





- Travel Advances \_\_\_\_\_
- Staff advances \_\_\_\_\_
- Sundry Expenses \_\_\_\_\_

Cr.- Petty Cash Float

**On replenishment of petty cash:**

Dr.- Petty Cash float                      Shs \_\_\_\_\_

Cr.- Bank Account                              Shs \_\_\_\_\_

## **4.12 Investment Accounts**

### **4.12.1 Investments**

- Utility's liquid resources, which are not immediately required for disbursements, should be invested with Financial Institutions.
- All amounts to be invested on both short term and long term shall be drawn from the Utility's current Bank account. Confirmation letter of deposits in respect of the following should always be obtained: Initial Deposit, Renewal of existing deposit and Rollover interest.
- All confirmed certificate deposit should be maintained in their numerical order.



- An investment register with the following details shall be maintained at all times:
  - a. Depository Bank
  - b. Certificate Deposit Number
  - c. Date of Deposit
  - d. Initial Capital
  - e. Rate of Interest
  - f. Total of Principal and Interest
  - g. Date of Maturity
  - h. Period and Date of Deposit Withdrawals
  - i. Transfers
  - j. Authority for Withdrawals and Transfers
  - k. Balance as at the end of Utility's Financial Period
  
- The officer in charge of deposits shall prepare at the end of each month a statement showing the position of each investment including the interest accrued.
  
- Composite accounts should be maintained for each investment.
  
- Investment activities should be controlled according to Utility's investment policies adopted in a resolution by the Board or the Finance committee and recorded in its Minutes regarding the use of different types of investments. Designated corporate officials should have specific authorities to approve transactions and have access to investment certificates.
  
- All transactions should be approved by the Managing Director.



- Investment account balances reconciled monthly with the General Ledger control account.
- All original investment certificates maintained in a secure storage area and periodically checked by an authorized official.
- All proposed investment transactions should be authorized by a designated committee.
- A cheque requisition or bank transfer should be prepared for investment purchases accompanied by an investment purchase authorization.
- An investment control log should be maintained with an adjustment made for each investment purchase/sale.
- The receipt of all investment sales proceeds should be reconciled with the investment sales authorization.
- Investment account balances should be reconciled with the General Ledger control account monthly/weekly.
- The investment account support detail should be reconciled with bank/broker statements.

## 4.13 Advances and Loans

### 4.13.1 General Information

#### Advances - General

- Advances refer to all sums, which are disbursed to officers with which to meet anticipated official expenses, the exact amounts of which are not yet known. All advances must be accounted



for afterwards, by the production of receipts/certificates for sums paid, and the retirement of any balances. Advances are short term, and must be accounted for promptly.

- ❑ Loans are sums disbursed to officers for specified purposes, which are to be repaid by such officers within a specified time.
- ❑ Subsistence allowances at the laid down rates are not advances that need to be accounted for by the production of receipts. However, where subsistence allowances are paid in advance, and the need for them subsequently ceases (e.g. a journey for which subsistence allowances have been paid is not undertaken), they must be repaid to the Utility without delay.
- ❑ No Utility money shall be made use of for any private unauthorised purpose whatsoever. Officers are strictly prohibited from advancing or lending any money for which they are answerable to the Utility, except in accordance with these Financial Regulations.
- ❑ Accountants are prohibited from charging payments to an advance account unless authorised so to do in accordance with these instructions.

#### **Authority for Advances**

- ❑ All advances must be approved by the concerned supervisor & Finance & Accounts Manager.
- ❑ Applications for advances must be made on official approved forms.



- ❑ The application form shall include provision for the signature of the recipient, the payer, and the authorised officers mentioned above.

#### **Clearance of Personal Advances**

- ❑ When an officer's service with the Utility ceases (for whatever reason, be it termination, retirement etc) it is the duty of his/her supervisor to ensure that all monies due to the Utility are recovered from the officer's salary, gratuity or leave pay etc. The Supervisor is responsible for informing the Manager Finance and Accounts of the impending departure of an officer. The Manager Finance and Accounts must be given ample notification of the impending departure of a Utility employee to enable him to obtain and prepare a liabilities schedule so as to calculate the amount due, if any, by the officer.
- ❑ Completion of repayment shall result in the personal advance copy in the Manager Finance and Accounts' possession being endorsed to that effect.
- ❑ The officers authorising advances should be held personally responsible for the recovery of such advances.

#### **Personal Loans**

Personal loans may only be granted for the purposes specified in the Financial Regulations, and/or other subsidiary regulations and under the conditions specified therein.



- Applications for loans should be made via the Supervisor, who should ascertain the circumstances and recommend to the Administration Manager or Human Resource Manager.
- No loans should be considered unless provision has been made therefore in the estimated cash flow.
- All loans are subject to express approval by the Chief Accounting Officer.

#### **Clearance of Loans**

- When an officer leaves the authorities' service for any reason, the amount must be recovered from him/her.
- No monies due to an officer should be paid unless all debts due to the Utility have been cleared.
- Where an officer's dues do not cover his/her debts to the Utility, the Utility should take immediate recovery action in any way necessary.

#### **Reporting of Losses**

- All losses of cash, receipts and other accounts documents and assets must be reported by the discovering officer to the Chief Accounting Officer immediately they occur or are suspected.
- It is not within the discretion of any officer to withhold a report of any case in which the theft or misuse of Utility assets or funds is established or suspected notwithstanding that the asset may have been returned or amount may have been paid



back; nor should a report be deferred to enable this to take place.

#### **Action To Be Taken By Supervisors In The Case Of Losses**

- Immediately submit a preliminary report to the Managing Director stating briefly the facts of the case and the sum involved. Preliminary reports must be sent as soon as the loss is known or appears to be probable. They must not be delayed until full details have been obtained, since it may be desirable to arrange special investigations.
- The police must be notified in all cases of burglary and theft due to break-ins etc.

#### **Action by Managing Director**

- It is the responsibility of the Managing Director to ensure that any loss occurring in the Utility is fully investigated and properly reported, and that prompt measures are taken to rectify any weaknesses in the method of work, supervision or security or any laxity in the carrying out of laid-down procedures in the Utility. Once a preliminary report has been received, he/she should ensure the case is pursued energetically and finalised at the earliest possible date. He/she should ensure that personnel are assigned to:-
  - a. Investigate all the circumstances of the loss and include all relevant facts in a comprehensive report to be submitted to him within an agreed time. If it is considered that the loss



resulted from negligence or carelessness on the part of any officer(s), the report should name the officer(s) concerned and state whether it is recommended that the officer(s) should be called upon to make good all or part of the loss.

- b. Satisfy themselves that adequate measures exist or have been taken to prevent a similar loss in the future.
  - c. Ensure that all records kept by the officer(s) concerned have been investigated with sufficient retrospectively to ensure that the true limit and nature of the loss is known.
  - d. Ensure that all assets under the responsibility of the officer concerned have been checked to ensure that the full limit of the loss is revealed.
- The Managing Director should brief the Board on all losses reported and recommend any actions necessary, for Board decision.

#### **Write Off of Irrecoverable Debts**

- When a balance on a debtor account of whatever kind appears to be irrecoverable, the Supervisor should submit a full report to the Manager Finance and Accounts or Commercial Manager giving particulars such as amount, period outstanding, name of





person, reason for debt arising, what action had been taken to recover the debt, reason why write off is recommended.

- ❑ The Manager Finance and Accounts or Commercial Manager should prepare a report on all such debts, and refer them to Top Management & The Board with recommendations, action necessary etc.
- ❑ The Board may authorise the write-off of losses for cash and other assets in the case of loss or theft or irrecoverable debts but only after it is satisfied that all possible steps for their recovery have failed.



## 4.13.2 Procedures

### Recording of Loans in Year of Advance

Responsible Officer	Description	Documents
Accountant	When the loan is paid, the relevant loan account in the Personal ledger should be debited with the amount of the payment, through the usual cash book posting procedures.	Loan Repayment schedule
Finance and Accounts Manager	Immediately the loan is made, should open the Personal ledger account as described above. He/she should calculate the interest due on the loan for the remainder of the financial year, by reference to the loan schedule.	Loan Repayment schedule
Finance and Accounts Manager	The interest so calculated should be debited to the relevant loan account in the personal ledger and credited to the interest on loans ledger account by journal entry.	Loan Repayment schedule
Finance and Accounts Manager	Monthly repayments of principal and interest should be calculated based on the loan conditions (e.g. whether compound or simple interest, repayment by annuity or equal instalments of principal).	Loan Repayment schedule
Finance and Accounts Manager	The monthly total of principal and interest should be deducted from the borrowers monthly salary, starting in the month after which the loan is given. Deductions should be credited to the relevant salary/wages deduction code.	Loan Repayment schedule
Finance and Accounts Manager	The repayments should be credited to the relevant loan account, in the personal ledger and debited to the relevant salary/wages deduction code by journal entry.	Loan Repayment schedule



## Loans - Year to Year Procedures

Responsible Officer	Description	Documents
Finance and Accounts Manager	At the end of each financial year, a schedule of loans outstanding at the end of such year should be prepared. This total should appear in the balance sheet as an asset, under the heading of "staff debtors".	Schedule of loans outstanding
Finance and Accounts Manager	The total interest due for the new year should be ascertained by add-listing the subsidiary ledger.	Schedule of loans outstanding
Finance and Accounts Manager	This interest should be debited to the relevant loan account in the personal ledger and credited to the interest on loans ledger account by journal entry.	Schedule of loans outstanding
Finance and Accounts Manager	Monthly repayments for the year should be verified, and any revised repayment due from each borrower notified to the borrower and the salaries/wages section, who should make the necessary revised deductions from pay.	Schedule of loans outstanding
Finance and Accounts Manager	The monthly repayments should be dealt with as described above.	Schedule of loans outstanding



## 4.14 Creditors Accounts

### 4.14.1 General Policies

#### Accounts to be opened

- ❑ Creditors accounts should be opened and maintained in the personal ledger in the following circumstances:
  - a. When the Utility makes deductions from the employee(s) salaries, for subsequent transmission to a third party (e.g. income tax deductions).
  - b. When refundable deposits are received for any purpose.
  - c. When the Utility receives money for onward transmission to a third party.
  - d. When bringing into account unpaid bills on preparation of the final accounts at the year end.
  - e. When the Utility makes any other deductions from one payment for payment to another party (e.g. withholding tax deductions).

#### Creditor Account Balances

The Manager Finance and Accounts should personally monitor the balances on creditor accounts, and ensure that they are maintained on sound financial management principles (e.g. that any monies received for onward transmission are transmitted without undue delay).



### **Repayment of Refundable Deposits**

- Deposits should only be refunded on the express authority of the Finance and Accounts Manager.
- Payment vouchers for the repayment of deposits must quote the receipt numbers and date on which the deposit was received. The original receipt must be endorsed “refunded” and attached to the payment voucher.
- Deposits should only be refunded to the person whose name appears on the original receipt, which was issued when the deposit was made. Deposits should not be refunded to third parties.

## **4.15 Expenditure - Control and Classification**

### **4.15.1 General Policies**

#### **Responsibility for Expenditure**

Each officer is responsible for the control and administration of the finances under their management. The Managing Director has a primary duty to ensure that a sound Utility exists to achieve this control and that financial regulation and instructions are followed.



### **Authorisation of Expenditure**

- No payment from Utility funds should be made unless authority has been given, either by the approval in the Annual Budget or by Budget variation.
- All disbursements of Utility money shall be made under authority of Departmental Head and Finance & Accounts Manager.

### **Allocation of Expenditure**

All expenditure should be allocated strictly in accordance with that authorised in the approved budget.

### **Review of Expenditure**

Responsible Officers shall frequently and in any case not less than once a month, cause a review of expenditure under his/her control to be made to ensure that amounts authorised to be spent are not exhausted and that the necessary authority is obtained before any liability which would result in excess expenditure is incurred.

### **Recording of Dates of Payment**

The actual date of payment must be the date recorded in the accounts. In no circumstances may payments be made before they are due in order to use an anticipated saving. Expenditure properly chargeable in any financial year must be accounted for within that financial year.




## **Settlement within Financial Year**

All officers are required to ensure that all expenditure incurred and chargeable against a budget year is as far as possible, paid within the financial year to which it is properly chargeable.

## **4.16 Invoices and Accounts Receivable**

### **4.16.1 General Policies Invoices and Provisions**

- All invoices issued shall be in numerical sequence.
- Records shall be maintained for all debtors and transactions relating thereto.
- On issue of the invoice after assessments have been made; the revenue receivable shall be recognized in the books of account.
- Outstanding debtors balances shall be reviewed at least monthly and aged analysis of debtors should be done to identify long outstanding balances.
- Reminder statements should be sent periodically to defaulting customers and appropriate action should be taken to recover the debts.
- Outstanding debtors balances shall be reviewed annually near the end of each financial year to ensure doubtful debts are adequately provided for and bad debts are written off.
- Specific provision should be made for all known bad debts. Bad debts should be written off when all reasonable steps to recover them have been taken without success. A bad debt



provision policy should be put in place to guide Accounts & Finance department in this area. It should state the percentage of outstanding debt at the financial year end to be provided as bad debts. This may vary with different categories of customers & age of the debt.

#### **4.16.2 General Information**

The accounting entry should be passed on issue of the invoice are as follows:

Dr.- Debtors – Customers’ Account

Cr.- Income – Income Category Account

#### **4.16.3 General Policies Accounts Receivable**

- Separation of Duties: The responsibility for posting customer collections should be kept separate from those with responsibilities for cash functions. The General Ledger control account should be posted by those with responsibilities independent of accounts receivable and cash receipts.
- Use of Control Accounts: The Utility employ a General Ledger control account to pinpoint errors.





#### 4.16.4 Procedures for handling Accounts Receivable

Responsible Officer	Description	Documents
Revenue Officer	Revenue shall be posted to the Subsidiary Ledger by the official with responsibilities independent of cash management activities.	Data input documents
Revenue Officer	Payments and other adjustments should be posted to the Accounts Receivable Subsidiary Ledger.	Receipts & Adjustment Vouchers
Revenue Officer	The Accounts Receivable Subsidiary Ledger should be reconciled with cash receipts transactions by the official responsible for the reconciliation.	Reconciliation Statements & Ledgers
Revenue Officer / Accountant	The Accounts Receivable Subsidiary Ledger should be reconciled monthly to the General Ledger control account.	Reconciliation Statements & Ledgers'

## CHAPTER 5

# Asset Management



Solid Waste tractors in Homa Bay, Kenya. Photo © UN-Habitat



## 5.1 Policies

### **Property Plant & Equipment (Responsibility for Safekeeping of Utility Assets)**

Any officer having custody of Utility assets is responsible for the safekeeping of such assets, and any loss or damage to such may be surcharged against him/her.


Offices acquire fixed assets based on an approved budget. Any acquisition cost exceeding the budgeted level is subject to obtaining further authorization/supplementary budget.

The acquisition of fixed assets must be made through a competitive bidding process with special consideration given to the purchase of technology products.

#### **A comprehensive fixed asset register should be maintained**

It is the duty and responsibility of the Fixed Assets Accountant to maintain a Fixed Asset Register. The information contained in the register should include:

- Asset tag number,
- Description of the item,
- Name of supplier,
- Make and/or Model,
- Serial Number,

- 
- Original Value,
  - Date of Acquisition,
  - Remark, etc

**All fixed assets should be insured in full against any casualty damages and losses.**

Sales, dispositions, transfers, and improvements of fixed assets follow the same approval guidelines as acquisitions using the appropriate forms as detailed later in this section.

The fixed asset records include a schedule of all fixed assets along with copies of invoices for all fixed asset purchases. The Finance and Accounts Department should conduct a full physical inspection at least once every three years to verify the accuracy of the fixed asset schedules.

A printout of all recorded fixed assets should be prepared by the Finance and Account Department by asset classification.

A central location should maintain possession of all Asset titles. A designated individual should be responsible for maintaining and updating all Asset records.

### **Inventories**

All Inventories of a Utility shall be updated in the inventories register as and when obtained or disposed of. The person responsible for the



safekeeping of each inventory shall be specified. Subsidiary inventories should be kept at defined locations.


### **Handing Over Statements**

On every occasion on which Utility assets are handed over from one officer to another, a handing over statement showing all assets transferred should be prepared, signed by both incoming and outgoing officers, forwarded to the Finance and Accounts Manager, and copied to the Internal Auditor

### **Cash**

Hand-Over Of Cash, Official Receipts Etc. The following instructions should be carried out whenever an officer discharging financial duties hands over these duties to another officer:

- The Cash Book and similar records must be ruled off and balanced, and any balances reflected as being on hand, must be verified. The exercise should be checked by both officers and the Cash Book, etc, signed and dated by both officers.
- Where the handover involves unused accountable stationery, both officers must satisfy themselves that all books of receipts as reflected in the Accountable Stationery Register are on hand and complete or have been signed for by the officer to whom they were issued.

- 
- ❑ The contents of any safe or cash box should also be checked by both officers and an inventory of the contents signed by both
  - ❑ Schedules of unused receipts, inventories, cash etc. should form part of the handing over certificate.

### **Asset Category Definitions**

Definitions of each asset category are presented below to assist in classifying where an item most properly fits.

#### **Land**

Capitalized at acquisition cost including assessments, legal and recording fees; draining, filling, other site preparation costs; etc

Land acquired by gift should be capitalized at market or appraised value at the time of acquisition. The acquisition cost of property that includes structures not to be razed (torn down) should be allocated between land and buildings based upon appraised values.

#### **Buildings**

- ❑ Acquisition by Purchase - Buildings acquired by purchase should be capitalized at acquisition cost with the purchase price and associated closing costs allocated between land and buildings on the basis of current appraised values. Additional costs incurred for the purpose of renovating or modifying the building's structure in order to place it in service should also be capitalized.



- ❑ Acquisition by Construction-Initial capitalization includes construction costs of the building structure, including all internal piping, wiring, and permanent fixtures associated with the distribution of utilities within the building. Costs should also include architectural and engineering fees, inspection fees and permits, bid advertising expenses, construction financing / interest expense, and insurance costs incurred during the construction period.
- ❑ Major Renovations and Leasehold Improvements - Renovations and improvements should be added to the capitalized value of the existing structure being impacted. Such additions would include the following:
  - a. Ramps, truck doors, fire escapes and other appurtenances.
  - b. Improvements requiring modifications of the structure to comply with current fire, health and safety codes.
  - c. Improvements undertaken to convert unusable floor space into usable floor space; or upgrade the use of floor space, (i.e. converting storage areas to office space).
  - d. Modernization of the structure as a whole, and not merely a rearrangement of selective office areas.
  - e. When the renovation project involves a significant razing of the existing structure, the cost of the portion that was razed should be removed from the asset. If the original cost figures are unavailable, a reasonable estimate of the original cost should be used.



### **Roads and Landscaping**

Includes; construction costs of sidewalks, drives, parking lots, outdoor lighting, shrubs and trees, lawns, and ground watering systems for lawns. Also includes surveying, filling, and draining costs if such costs are incurred solely for the installation of the improvement and are not part of an overall land acquisition and construction project.

Additions to existing sidewalks, drives, and parking lots should be capitalized in the year completed. Maintenance, partial replacement and resurfacing projects are to be charged to expense during the period in which the work is completed.

### **Static Machines and Pipe Network**

Includes the cost of acquisition as well as installation costs and legal and other fees, licenses, surveying, equipment rental, and any other such costs incurred in the bring the facilities to useable condition and present location.

Additions or extensions to existing utility generators and distribution capacity should be capitalized in the year such addition is completed.

### **Mobile Plant**

Includes the cost of acquisition as well legal and other fees, licenses, equipment rental, and any other such costs incurred in the bring the plant to present location and useable condition.





### **Furnishings and Equipment**

Items in this category should be capitalized at net invoice price or market value, if acquired by gift, plus freight and installation charges.

Trucks, Buses and Cargo Vehicles; Major Equipment, Audio Visual Equipment, Copiers.

Vehicle cost includes net invoice price plus any dealer preparation and local delivery costs. Major equipment cost includes any site preparation costs and shipping, as well as all costs associated with the installation of the equipment.

### **Autos, Vans and Passenger Vehicles**

Includes; net invoice price plus any dealer preparation and local delivery costs.

### **Computer Software, Hardware and Related Accessories**

Computer software includes net invoice cost and any related consulting and/or training costs associated with the initial software implementation. Internally developed software costs are expensed during the period incurred.

Computer hardware and related accessories include net invoice cost plus freight and installation charges.



### **All Furnishings and Equipment Not Specifically Defined in Other Classifications**

This typically includes furniture, apparatus, machinery, implements and tools used in laboratories, offices, store rooms, and auxiliary enterprises, provided that such equipment has an economic useful life of at least one year and meets the required minimum Cost Guideline for this category.

### **Capitalization of Assets**

Certain items purchased by the Utility have a significant cost and a useful life of more than one year. Therefore, these items are recorded as assets (capitalized) in the Utility books and depreciated over their estimated useful lives.

The Utility capitalizes any asset whose cost exceeds certain defined amount (defined by the Utility). Small value items (Minor Purchases) are not capitalized and are expensed as incurred.

### **Depreciation of Fixed Assets**

Depreciation of property and equipment is recognized over the estimated useful life of the related asset.

### **Depreciation Guidelines**

- ❑ All depreciation and amortization calculations the “straight line” method can be employed. For financial statement purposes a full year of depreciation expense for an asset can



be recorded in the year of acquisition, while no depreciation expense can be recorded in the year of the asset's disposal.

- Freehold land is not depreciated. The Utility is required to define the expected useful life of each category of asset like in the case below

#### **Financial Statement**

- Acquisition of buildings - purchase or construction: **40 years**
- Building Improvements: **20 years**
- Land Improvements: **20 years**
- Autos, vans and passenger vehicles: **4 years**
- Computer software, hardware and related accessories: **3<sup>1</sup>/<sub>3</sub> years**
- All furnishings and equipment not specifically defined in other classifications: **8 years**

#### **Detailed Proposal**

##### *Buildings*

- General Construction including: **40 years**
  - Foundation walls
  - Interior foundations
  - Slab on ground
  - Framing & external walls
  - Structured floor



- Architect fees
- Legal expenses
- Site Preparation including: **40 years**
  - Clearing, grading & installing public utilities
- Roof & Drainage including: **8 years**
  - Roof covering materials & roof drainage
- Interior Construction including: **15 years**
  - Floor finish
  - Carpeting
  - Ceiling finish
  - Wall partition material & finishes
- Plumbing including: **10 years**
  - General plumbing
  - Sinks, Lavatories, drinking fountains, bathtubs, showers, urinals, etc.
- Heating, Ventilation & Air Conditioning including: **10 years**
  - Furnace
  - Boiler
  - Rooftop packaged units
  - Central cooling systems
- Electric including: **10 years**
  - Wiring & lighting



- ❑ Fire Protection, Light Safety including: **10 years**
  - Sprinkler system
  - Fire alarm & fire detection systems
- ❑ Miscellaneous including: **5 years**
  - Emergency generators
  - Intrusion alarm systems
  - Electric doors
  - Fire escapes
  - Public address systems
  - Communications Cabling
- ❑ Improvements other than buildings: **20 years**
  - Roads and Landscaping
  - Utility Tunnels and Conduits
  - Pipeline Energy System
  - Recreation Courts and Athletic Fields
- ❑ Furnishings and Equipment : **8 years**
  - Major Equipment, Audio Visual Equipment, Copiers, Microfiche Readers,
- ❑ Motor Vehicles : **4 years**
  - Trucks, Buses and Cargo Vehicles; Major Equipment
- ❑ Autos, Vans and Passenger Vehicles: **4 years**
- ❑ Computer Software, Hardware & Related Accessories: **3<sup>1</sup>/<sub>3</sub> years**



### **Fixed Asset Tagging**

All fixed assets shall be identified and tracked in the Utility's Fixed Asset system. This should be accomplished by attaching a pre-numbered tag to each asset identifying it as "Property of the Utility."

The asset tag number should consist but should not be limited to the:

- Name of the Utility (full or abbreviated);
- City or town where the office is located;
- Asset category, say office furniture (OF), office equipment (OE), printing equipment (PE), medical equipment (ME), translation equipment (TE), computer & accessories (CA), vehicles (VE), household furniture & equipment (HF);
- Asset number; and
- Example, Utility Name/Town of location or Department/OF/OO205.

### **Disposal of Property**

The disposal of assets should be done in accordance with The Public Procurement and Disposal laws of the Country/Utility.

### **General policy**

Property should be disposed of preferably, on "as is, where is" basis and the Utility shall try as much as possible to obtain the most advantageous return from sales-disposal of its property.



### **Responsibility To Define Goods For Disposal**

The user, upon determination that an item under his/her custody is un-useful, as a result of damages, un-serviceability, unsuitability, high maintenance costs, expiry of useful life, obsolescence, excess stocks, etc, should submit a written recommendation for disposal to the respective Head of Department.

It is the responsibility of the Head of Department to check and ensure that the goods are not required by any other unit within their Department/Utility.

In the event of the Head of Department approving the disposal, the concerned Head should submit details to the Head of Finance and Accounts Department.

### **Computer equipment**

Proposals to dispose of computer equipment must be supported by a technical evaluation/report prepared by the Information Technology Department.

### **Return to store**

Concerned users should return all property approved for disposal, excluding vehicles, to Stores to process the necessary documents for adjusting the inventory.



### **Property Insurance**

Under the direction of the Finance and Accounts Manager, the Officer in charge of Insurance arranges new insurance covers, renews existing ones and handles related claims for all the Utility's property. Heads of Departments/Managers are encouraged to identify and assess risk exposure to property relating to their work and to make these known to the Finance and Accounts Manager.

### **Competition**

The Officer in charge of Insurance shall survey the local insurance market, preferably every two years and negotiate with insurers to obtain competitive insurance rates for policies placed in the local market. Offshore policies are similarly contracted on competitive basis.

### **Criteria**

Insurance cover for the Utility's property should be guided by risk exposure and cost-benefit criteria.

### **Renewal**

The Officer in charge of Insurance should arrange timely renewal of local insurance policies to ensure that they are current and that the Utility's property is fully protected. Similarly, he/she should arrange for the timely renewal of offshore policies.

### **Claims**

The Officer in charge of Insurance should initiate and follow up the settlement of claim. She/he should make timely claims and comply





with the formalities required by the insurance contract in order not to prejudice the Utility's rights and interests.

The Officer in charge of Insurance should compile a statement of all insurance claims annually. The statement should highlight the following information:

- Premium paid per annum
- Numbers of claims and sums involved
- Settlement record
- Claim categories (vehicles, fire, public liability, goods, money, etc)
- General causes
- Relation claims/premium (this should give an indication of the premium rate for the following year).

#### **Review**

The Officer in charge of Insurance should review the insurance policies and their terms and premiums to ensure their adequacy. She/he should, in consultation with the Finance and Accounts Department, prepare a detailed list of the property (fixed assets) and the sums to be insured.

#### **Property Insurance Cover**

The Utility shall have the following 'property' insurance contracts:

- Industrial Risks



This insurance cover shall be arranged for buildings and contents (computers included), including stores, against physical loss or damage. Consideration should be given to insuring buildings at replacement costs and contents at acquisition costs.

The insurance rates for buildings and contents should take cognizance of the physical distribution of the Utility's buildings, which reduces considerably the overall risks involved.

Insurance against Fire and lightning

This insurance covers the Utility's property against fire and lightning risks. All office buildings and items therein, should be covered under this policy.

Portable Electronic Equipment

The Utility should arrange for 'All Risks' of loss or damage in respect of portable electronic equipment such as computers, etc.

Motor Vehicles

Under the 'Motor Insurance', all cars should be insured under 'Comprehensive' policy.

Money

The 'Money' policy should insure the Utility against loss of the contents of safes and money in transit.



Fidelity Guarantee

Fidelity Guarantee insures against any act(s) of fraud or dishonesty committed by any employees set-forth in the insurance policy schedule to an amount not exceeding a sum indicated for each employee.

Public Liability

Insurance cover should be arranged in respect of indemnity against legal liability to third parties in respect of accidental death, bodily injury and/or loss or damage to property incurred by the Insured in the course of the Insured's business.

#### **Cash and Asset Surveys**

**Annual Surveys** - Surveys should be held each year on the cash and accountable stationery balances held by the Utility prior to commencement of business on the first working day of the following year. The Survey Team should consist of at least the Accountant and Internal Auditor. The forms used in the survey of the cash and accountable stationery balances held at the date of the survey are accurately prepared and duly signed by team members. Where cash held by an officer is counted, such officer must sign the survey form.

**Surprise Surveys** - Surprise surveys of cash, stamps, receipt books etc. held by any officer should be carried out from time



to time. The dates and times of such surveys should be kept strictly confidential until immediately prior to the survey.

- ❑ **Attendance of Officer-In-Charge of Cash** - Responsible Officers should attend throughout while surveys are being held on cash balances and other accountable documents in their charge. Under no circumstances should they surrender the key(s) of their strong-room or safe to the survey team.
- ❑ **Suspension of Business** - No transactions may take place between the close of business at the end of the financial year and the survey.
- ❑ **Duties of Survey** - Survey Teams are required to verify the balances shown in cash books and petty cash books and the Accountant officers must ensure that they are ruled off and balanced before the commencement of the survey.
- ❑ The cashbook is initialized by the Survey Team when it commences the survey. The team should then verify the balances of cash with the cash balances as shown in the Cashbook.
- ❑ **Certificate of Cash Balance** - A certificate of the cash balances counted, signed by all members of the Team should appear on the relevant page of the Cashbook.
- ❑ **Counting of Cash** - A Survey Team should count all notes, coins, cheques which should be entered on a cash inspection



form and the survey should cover all monies in any strong-room, safe or cash box, irrespective of source.

- ❑ **Reports of Survey Teams** - The Team's Report should have been agreed by all the members of the team and should be forwarded to the Finance and Accounts Manager and Chief Internal Auditor. A copy of the report should be given to the Chief Accounting Officer.
- ❑ **Surpluses and Deficiencies** - Any surpluses or deficiencies discovered by a Survey Team shall be dealt with in accordance with standard policy e.g shortage must be made good by the responsible officer immediately & surplus must be investigated and if belongs to Utility then can be receipted and credited to other incomes.
- ❑ **Survey of Other Utility Assets** - At the time of the annual survey of cash balances and accountable documents, the Team should also hold a survey on other Utility assets and inventories as may be required.

## 5.2 Information

### Accounting Treatment

**On acquisition of fixed assets by purchase the following entries shall be passed:**

Dr.- Fixed Assets – motor Vehicle

Cr.- Bank Account No. \_\_\_\_\_



**During the construction of additions to a building the following entries shall be made:**

Dr.- Work-In-Progress – Building xxx

Cr.- Bank Account No. \_\_\_\_\_

**On completion of the additions and major renovations the following entry should be made:**

Dr.- Fixed Assets – Building xxx

Cr.- Work-In-Progress – Building \_\_\_\_\_

**Depreciation shall be charged from the time of completion of the additions.**

On depreciation the following entries shall be made:

Dr.- Depreciation Expense – Motor Vehicles

Cr.- Accumulated Depreciation

**If the asset was received as a grant from a donor; then the following entry (to recognise the depreciation) should be made:**

Dr.- Grant Account – Donor \_\_\_\_\_

Cr.- Other Income – Utilisation of grants



**On disposal of a fixed asset the following entries should be made**

Dr. - Fixed Assets Disposal Account

Cr. -Fixed Assets Account - Equipment \_\_\_\_\_

Dr. -Accumilated Depreciation - Equivalent

**On receipt of the funds arising from the sale of the asset the following entry should be made:**

Dr. - Bank with the amount of caash received

Cr. - Fixed Asssets Disposal Account

If the proceeds from the sale/disposal exceed the cost of the asset less the accumulated depreciation; the balance on the disposal account is considered to be a profit on sale of the asset. If the proceeds from the sale are less than the cost less depreciation; the balance on the fixed assets disposal account is a loss. On revaluation of assets the following entries should be made:

If the revaluation results in an increase in the value of the asset:

Dr.- Fixed Asset Account – Motor Vehicles

Cr.- Revaluation reserve

(with the increase in the value of the asset.)

If the revaluation results in a decrease in the value of the asset:



Dr.- Loss on Revaluation

Cr.- Fixed Asset Account – Motor Vehicles

On depreciation of re-valued assets the following entry should be made:

Dr.- Depreciation Expense

Cr.- Accumulated Depreciation – Motor Vehicles

Cr.- Revaluation Reserve



## CHAPTER 6



## Salaries and Pensions



Community participates in the UN-Habitat Lake Victoria Water and Sanitation project. Photo © UN-Habitat



## 6.1 Salaries and Pensions

Personnel and Payroll information, policies and procedures are organized under four categories:

- Personnel requirements;
- Personnel standing data;
- Payroll payment and
- Handling payroll deductions.

## 6.2 Personnel Requirements

### 6.2.1 Policy

Putting new employees on the payroll system and removing terminated employees from the system as well as handling vacation and sick pay and paying bonuses. Reference should be made to the Human Resource Manual for guidance on these policies.

## 6.3 Personnel Standing Data

### 6.3.1 Policy

Department Head should keep a personnel record for each member of staff under him, indicating the financial information necessary for him



to correctly calculate salaries. The record should show, as applicable the following:

**Standing information**

- name and address of person
- designation and grade
- date of birth
- date of appointment and minute reference (if applicable)
- qualifications
- monthly pay (includes all allowances), incremental date, and salary scale
- leave entitlement
- bank name, address and account number.
- deductions (e.g. advances, income tax)

**Monthly information**

- leave record (e.g. financial year, leave entitlement, leave taken, accumulated entitlement)
- sickness record
- month by month schedule of gross pay, allowances, deductions, and net pay



### **6.3.2 Information**

The objective is to ensure the payroll department calculates and records payroll data accurately and completely for all employees. The major internal accounting controls would include;

- A precise paper trail covering all transactions
- All changes in standing personnel data approved by responsible officials
- Separate payroll and personnel files periodically reconciled.

## **6.4 Payroll Payment**

### **6.4.1 General Information**

The objective is to ensure payment for salaries by cheque or direct deposit or other means is made only to employees entitled to receive payment.

### **6.4.2 Policies**

The following shall be adopted;

- No payment of salary made by cash unless special approval is given by FAM
- Use of pre-numbered cheques with the Payroll Department accounting for all cheque numbers.



- ❑ Destruction of obsolete or surplus cheques in the presence of authorized personnel and the destruction evidenced by their signatures.
- ❑ Complete audit trail on all payroll cheques and direct deposit with authorizing signatures at each juncture.
- ❑ Extensive documentation regarding the receipt of cheques and the handling of unclaimed payroll cheques.
- ❑ Include allowances for transport, housing, acting appointments etc. in gross salary and pay at the approved rates to the relevant staff as authorized by the Board.
- ❑ Unclaimed or unpaid salaries should be held in the Utility's general Operating bank account.

### 6.4.3 Payroll Payment Procedures

Responsible Officer	Description	Documents
Payroll Clerk	1. Distribute payroll payments by cheque or direct deposit.	Cheque
Finance and Accounts Manager	2. Approve direct bank transfers.	
Paymaster	3. Prepare a report of undelivered payroll cheques and return them to the Finance and Accounts Department.	Report of Undelivered cheques



## 6.5 Handling Payroll Deductions

### 6.5.1 General Policies

Payroll deductions should be recorded in appropriate General Ledger control accounts and reconciled with payments made to third parties.

Any late and other notices received from third parties should be available for review by Internal Review.

Employees calculating payroll deductions should be different from those who make payments of payroll deductions to third parties and review payroll deduction payments to third parties.

Payroll deductions on behalf of employees should be limited to:

- Taxation liabilities
- Compulsory deductions
- Deduction authorised by the employee e.g advances, loans etc

Records should be maintained in respect of each and every employee of the Utility showing:

- Gross salary
- Tax and details of all other payments and deductions
- Sick, annual and long service leave available and taken.
- Pension deductions
- Attendance records



- ❑ Unclaimed or unpaid salaries should be held in the Utility's general Operating bank account.

## 6.5.2 General Procedures

### Handling Payroll Deductions

Responsible Officer	Description	Documents
Payroll Officer	1. For each employee, calculate the payroll deductions. Summarize them by pay period and record in General Ledger Account.	Pay Sheets
Official independent of payroll preparation, Internal Audit	2. Reconcile payroll deductions monthly/by pay period, with the amounts recorded in the control accounts.	Reconciliation
Finance and Accounts Manager / Inter Audit Manager, Finance and Accounts	3. Review payments made to third parties for payroll deductions, for accuracy and timeliness	
Payroll Officer	4. Store in a separate file and make available for review by internal audit, and other notices received from third parties.	Pay sheet, Third Party Notices

## CHAPTER 7



# Internal Check System



Booster house routing check. Photo © UN-Habitat





## 7.1 General Policies

### 7.1.1 Utility Monthly Accounts

The FAM shall be responsible to ensure that the following activities/ checks are carried out at least once a month, on the accounts for which they are responsible

- Verification of all entries in the cashbooks and any subsidiary cash books since the last examination with the receipt books, and payment vouchers and casting of the cashbooks and subsidiary cashbooks.
- Reconciliation of the balance in the main cashbook with that in the bank statements
- Examination of the payment vouchers for correctness of authorities, allocations, rates, calculations, castings and receipt signatures and ensure that vouchers are properly filed
- Checking any contra entries, also bank credits or debits appearing in the cash book, with the bank statements
- Checking revenue received to the ledger
- Checking payment vouchers to the ledger
- Examination of journal entries and check to the ledgers
- Casting of the ledgers and checking totals to date.
- Ensure that comparative statements of actual revenue and expenditure compared to the budget and the trial balance are prepared monthly
- Reconciliation of control accounts to subsidiary records



### 7.1.2 Cheque Tampering (Forgery)

- Cheque Tampering is one of the most committed frauds worldwide. Strong internal controls need to be put in place to prevent the effect of this fraud.
- Appropriate separation of duties should be documented and enforced.
- A signatory on the account should not do cheque preparation.
- Preparation of all cheques should be accompanied by appropriate supporting documentation.
- Exposure to non-accounting personnel should be limited during preparation and signing of cheques.
- Care should be taken in preparing cheques as well as in recording amounts and payees.
- Support documentation should be available for review by the cheque signer.
- Cheques should be mailed immediately after signing.
- Accounts payable records and addresses should be secure from possible tampering. All changes in vendor information must be verified.
- Missing or out-of-sequence cheques must be investigated immediately.
- Banks statements should be reviewed diligently to confirm that amounts have not been altered.
- Bank reconciliation statements should be completed immediately after monthly statements are received.



- Statement reconcilers should be independent of the cheque writing process.
- Statements should be reconciled and reviewed by responsible officials.
- Stale cheques must be appropriately marked and separated from other cheques.
- Unused cheques should be stored in a secure area such as a safe, or other locked area. Security to this area should be restricted to authorized personnel only. Keys and access codes should be changed periodically.
- Unused cheques for accounts that have been closed should immediately be destroyed.
- Paid cheques should be reviewed for alterations and for appropriate signatures.
- Suspicious paid cheques should be traced to the related documents and examined for payee name and amount.
- The cash disbursements journal should be reviewed for unusually large or otherwise suspicious payments.
- Random sampling of cheque approvals and supporting documentation should be used periodically to test for fraudulent disbursements and possible cheque tampering.
- Electronic payment services can be used for large amounts eliminating the use of paper cheques.



## 7.2 Financial Operations of a Utility

The financial operations of the Utility are subject to:

- The general supervision, guidance and instructions of the Board.
- The Financial Regulations made by the Board.
- Any additional instructions which may be issued by the Finance and Accounts Manager, consistent with Board Policy and Financial Regulations.
- All laws of the Country.

## CHAPTER 8



# Bank Reconciliations



Stake holders meeting. Photo © UN-Habitat



## 8.1 General Information

- All bank accounts must be reconciled to the general ledger/ cash book on a monthly basis.
- To the extent practical, individuals that prepare bank reconciliation statements should not have cash receipt or cash disbursement responsibilities, nor have access to unused cheque supplies.
- Bank statements and adjustment items must be delivered unopened to the person responsible for the bank reconciliation.
- Bank reconciliation statements must be prepared in a standardized format in order to provide consistency within the Utility.
- All bank reconciliation statements must be reviewed by the designated accounting official.
- Copies of all bank reconciliation statements must be forwarded to the Finance & Accounts Manager each month.
- Designated officers (reconcilers) who perform bank reconciliation statements should not have approval authorities and recording responsibilities.
- All reconcilers should easily understand format of reconciliation.
- Reconciling items should be clearly identified and supported.



- ❑ Review reconciliation items for propriety and ensure that all items meeting the scope are supported.

## **Definition of Bank Reconciliation**

Bank reconciliation involves agreeing the balance of cash as shown by the bank statement(s), with that as shown by the cash book(s).

It is to be prepared at the beginning of each month, on the bank balance and cash book(s) balance as at the end of the previous month.

It is important that all transactions contributing to any difference between the two balances are identified, and where necessary remedial action is taken.

## **Preparation of Bank Reconciliations**

As bank statements are received for the month under reconciliation, the person responsible for cashbook entries should check off the bank statement entries to the cashbook. Any entries appearing in the bank statement which are not shown in the Cash Book should be investigated, and if correct should be immediately entered in the Cash Book (and in the case of receipts, a receipt issued).

## **Checking of bank statement entries**

At the end of each month, the bank statements should be checked to ensure that all entries have been entered into the cash book(s) or are noted as valid adjustments to appear on the reconciliation statement.



The cumulative cashbook balance brought forward from the previous month should be added to this to arrive at the revised accumulated cashbook balance.

### **Adjustments in the Bank Reconciliation**

No adjustment should appear in the reconciliation for such things as bank charges and commission, which are valid direct debits to the bank statement. These, once identified and confirmed as valid, must be entered in the cashbook.

### **Discrepancies**

- Any discrepancies in balancing the cash book(s) and reconciling with the bank statement must be resolved immediately by checking such entries as are necessary, and making any necessary corrections.
- If the re-checks are done carefully and accurately, the bank reconciliation must balance. All errors/omissions etc. must be entered in the relevant records as they are found e.g. if valid transactions are found to be missed out of the cashbooks, they should be entered and totals amended.
- Once the bank reconciliation has balanced, all cashbook totals must be inked in to form a permanent record.





## **General Control**

Financial transactions processed through the accounting system may involve recording cash receipts or disbursements. Proper recording of these transactions eliminates one of the primary sources of errors, and can aid in identifying other errors in related or offsetting transactions. The timely reconciliation of bank accounts is a significant control feature of any accounting system.

## **Proof of entries on the bank reconciliation**

Each entry on the bank reconciliation should be capable of being “proven” by:-

- Bank statement balance - check that the closing balance on the last working day of the month has been correctly taken from the bank statement.
- Payments not yet credited - trace the credits into the following month's bank statements, and agree to the figure carried forward in the reconciliation.
- Cheques drawn not yet presented - list from the following months' bank statements all cheques presented which were drawn before the end of the month to which the reconciliation relates (i.e. take the last cheque number in the cash book for the month being reconciled, and list all cheques presented to the bank statement after the end of the month, which fall before this number).



- Cash book cumulative receipts.
- Cash book cumulative payments - as above.
- Cash book balance brought forward.

## 8.2 Bank Reconciliation Preparation Procedures

### 8.2.1 Preparation of a bank reconciliation

The bank reconciliation should be completed as follows:-

Responsible Officer	Description	Documents
Accountant	Indicate the bank account number, Utility name & the date at which the reconciliation is being i.e. the last date of the relevant month.	Bank Reconciliation Form
Accountant	The closing balance of the bank statement for the last working day of the month should be entered on the form, and the date of the statement indicated.	Bank Reconciliation Form, Bank Statement
Accountant	The cumulative receipts and payments for the month as per the cash book(s) should be entered on the reconciliation	Bank Reconciliation Form
Reconciliation Officer	The cashbook balance brought forward from the previous month should be added to the net total of above to ascertain the total cumulative balance. There should not usually be any other adjustments, and this balance should agree to the adjusted bank balance. If there are any differences these are investigated they could be to un-presented cheques, un-credited payments, direct debits by the bank etc	Bank Reconciliation Form



## 8.2.2 Handling Discrepancies

In the event of the reconciliation failing to balance at the first attempt, the following checks should be applied:-

Responsible Officer	Description	Documents
Accountant	Re-check that all items in the bank statement are in the cashbook, except in respect of adjustments such as "payments in not yet credited" and "cheques drawn not yet presented" brought forward from the previous month. Check especially that: 1. All non cheque debits on the bank statement are in the cash book and included in the totals. 2. All receipts on the bank statements are in the cash book, or are in respect of the "payments in not yet credited" figure of the previous months' bank reconciliation.	Bank Statement
Accountant	Check that all items in the cashbook are in the bank statement except for the "payments in not yet credited" and "cheques drawn not yet presented" adjustments.	Bank Statement
Accountant	Check the addition of the cashbook, and the cumulative figures are correctly brought forward and added on from the previous month.	
Accountant	Check the corrections of the payments cash book total for the month by adding up the totals of the cheque schedules for the month and then adding on any direct bank debits. If this reveals a discrepancy, check the adding up of each individual cheque schedule, and then if necessary check item by item from the schedules into the cashbook.	Cheque Schedules

## CHAPTER 9



# Financial Ledgers, Trial Balance and Year End Closing Procedures



Small Utility's record book. Photo © UN-Habitat




## 9.1 Financial Ledgers

### 9.1.1 General Policies

The financial ledgers shall be maintained on the principle of double entry book keeping i.e. that every transaction has a twofold aspect. Thus every debit in the ledger has a corresponding credit, and vice versa. Consequently, at any moment in time, the total of the debits in the ledgers should agree to the total of the credits. This balancing of totals shall be proved by a Trial Balance.

The main inputs to maintain the financial ledger include.

- ❑ Cashbook(s):- Showing all cash which has been received & paid out. analyzed between the various types of income & expenditures. At the end of each month, the cashbook should need to be totalled and balanced, and the figures entered on the monthly receipt/payments analysis summary. The financial ledger should be posted from these summaries.
- ❑ Stores posting summaries should be prepared by the stores ledger section, and at the end of every month passed over to the Financial ledger section for posting to the financial ledgers. These summaries must be in balance when they are received. (i.e. the total debits and credits coded thereon must agree).
- ❑ Salaries allocation analysis: This should be prepared by the salaries section, and passed to the financial ledger section for posting. The analysis must be self balancing.

- 
- Journal and adjustment vouchers: All transfers between accounts should be done either via the journal, or on the basis of other laid down procedures for transfers between accounts. As in the case of all other source documents for financial ledger posting, these must be self-balancing.

### **9.1.2 Financial Ledgers – General**

A financial ledger is, in very simple terms, merely a ‘book’ which contains the financial details of all transactions entered into by a Utility. It should record all expenses and income plus all non cash transactions such as the transfers of stock items between stores, the indebtedness of water consumers, and the allocation of employee’s emoluments to the relevant cost centre etc.

All accountants should be involved in expenditure and income record keeping and in producing meaningful periodic financial statements. In order to do this they need to maintain ledgers to record all transactions.

The coding structure provides a basic framework to enable this to be achieved



## Main Inputs to Financial Ledgers

The main sources of information for entries in the financial ledger come from:

- cash book(s)
- Stores posting summaries
- salaries and wages allocation analyses
- journal and adjustment vouchers

## Setting up the financial ledger

- The code list is structured so that every main activity of the Utility is included therein. The personnel of each Area should examine the operations of their Area, and analyse them into the main activities/cost centres covered by the code list.
- In order to reflect the twofold aspect of cash transactions, a cash control account is maintained in the ledger. Thus the accounting entries to be made are:

**For payments:** Debit the relevant expenditure code or relevant personal/real account code

Credit cash control account

**For receipts:** Credit the relevant income code or relevant personal/real account code

Debit the cash control account



The respective debit and credit to the cash control account must agree to 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 & cycle allowances, leave transport, funeral expenses etc. The extreme right hand column of every nominal account folio is the total column for the detail head (i.e. the sum of the analysis columns).
- ❑ The personal account folios are set up on “T account” ledger sheets i.e. the accounts are double sided, having both debit and credit sides.
- ❑ 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.





## 9.2 Trial Balance

### 9.2.1 General Policies

The Trial Balance should be extracted from the ledgers, by listing all the debit balances, and all the credit balances.

Error detection: If the Trial Balance doesn't agree, an error has been made somewhere. The following should be checked:

- The casting (adding up) of the Trial Balance;
- That all relevant ledger folio balances have been included and at the correct amount;
- That all the input documents do balance i.e. the debits equal the credits;
- The casting (adding up) of the ledger;
- The posting from the input documents to the ledger;
- That debits have not been picked up as credits and vice versa.

To summarise, the steps involved in striking a Trial Balance:

1. All postings to the financial ledger must be completed, and each ledger folio totalled and balanced.
2. Enter the balance from every ledger folio on the Trial Balance form, and total the form.
3. The debits should total the same as the credits and thus the Trial Balance agrees.



## 9.3 Year End Closing Procedures

In order to properly recognize and clarify the results of the operations and the financial position, the accounting books should be closed semi-annually. The accounting books shall also be tentatively closed at the end of each month for the purpose of internal analysis and for management reporting requirements. The following closing procedures usually apply.

### 9.3.1 Accounts Receivable

Responsible Officer	Description	Documents
Accountant	Complete accounting processes and reconciliations for Accounts Receivable (AR).	Reconciliation Statements
Accountant	Enter and post all invoices, debits, and credits for the accounting period.	
Accountant	Enter and post all payments for the accounting period.	
Accountant	Enter deposits into the bank reconciliation file.	
Accountant	Prepare the AR Aging Report to reconcile report-aging balance to the general ledger account balance for AR.	AR Aging Report
Accountant	Review bad debts and credits and take the appropriate steps.	
Accountant	Prepare and send customer statements.	Customer Statements
Accountant	Provide for Bad debts following the defined procedure.	



### 9.3.2 Accounts Payable

Responsible Officer	Description	Documents
Accountant	Complete accounting processes and reconciliation statements for Accounts Payable (AP).	Reconciliation Statements
Accountant	Generate all Vouchers and Adjustments from purchasing section for the accounting period.	
Accountant	Generate and post all AP payments for the accounting period.	
Accountant	Review and correct any vouchers "on hold"	
Accountant	Prepare the AP Aging Report to reconcile the report aging balance to the general ledger account balance for AP.	AP Aging Report
Accountant	Prepare the Vouchers Payable Report for accrued receipts to reconcile the total vouchers amount to the general ledger account balance for Vouchers Payable.	Vouchers Payable Report
Accountant	Review the official order register to determine the existence of any orders where the goods have not been received and consequently the obligation to pay has not been recognized by the Utility.	Order Register
Accountant	After the outstanding Official Orders have been verified and the values determined; make entries to the General Ledger to ensure that the right liability is recognized.	Order Register
Accountant	Review any other orders or contingent liabilities and entries made to recognize these liabilities in the General Ledger.	Order Register



### 9.3.3 Payroll

Responsible Officer	Description	Documents
Payroll Officer	Complete accounting processes and reconciliation statements for Payroll.	Reconciliation Statements
Payroll Officer	Process final payroll for the fiscal year.	Pay sheets
Payroll Officer	Enter and post accrual payroll entries as required.	
Payroll Officer	Enter and post all correcting or adjusting payroll entries for the period.	
Payroll Officer	Process Year-end Payroll Report.	

### 9.3.4 Closing Fixed Asset Accounts

Responsible Officer	Description	Documents
Accountant	Record all additions, disposals, and movements of fixed assets. Post all monthly depreciation entries.	Fixed Assets Schedule
Accountant	Carry out physical counts of all assets held at the end of the year.	
	Assets Survey Report/stock taking sheets	
Accountant	Update the Fixed Assets Register	



### 9.3.5 Inventories

Responsible Officer	Description	Documents
Store Keeper, Accountant, Internal Audit	Carry out physical counts of all inventories kept in the stores at the end of the year.	Inventories Survey Report
Store Keeper, Accountant, Internal Audit	During the count identify and count obsolete, damaged and expired items. Obtain the value of these items and advise management on whether to write them off.	
Store Keeper, Accountant, Internal Audit	Compare the results of the physical stock counts to the perpetual records and obtain explanations for any variances.	
Store Keeper, Accountant, Internal Audit	In cases where no explanations have been obtained or the explanations indicate that a write off is a reasonable option; the perpetual records should be updated and corresponding entries should be made in the General Ledger.	
Store Keeper, Accountant, Internal Audit	After the physical counts the compute the value, based to applicable accounting standard. Entries should be made to the General Ledger to adjust the balances.	



### 9.3.6. General Ledger

Responsible Officer	Description	Documents
Accounts & Finance	Complete accounting processes and reconciliation statements for the General Ledger.	
Accounts & Finance	Post all the standard Journals for the accounting period	Journal Vouchers
Accounts & Finance	Process and post all correcting or adjusting journal entries for the period.	
Accounts & Finance	Process the Financial Statements for the accounting period, and all other financial reporting documents.	Financial Statements
Accounts & Finance	Bank reconciling procedures: Update reconciled transactions from the bank statement. Enter miscellaneous charges from bank statement into bank reconciliation. Compute balance. Reconcile posted balance to bank balance with un-reconciled item list (outstanding cheques and deposits in transit).	Bank Reconciliation Statements Bank Statements
Accounts & Finance	Carry out a cash count at the end of the year. Prepare cash certificate and a statement reconciling the cash at hand to the petty cash/imprest amount.	Cash Certificate
Accounts & Finance	Close the fiscal year when completed	

## CHAPTER 10



# Financial Records and Reports



Uweso women group during their development meetings. Photo © UN-Habitat



## 10.1 Financial Records

- ❑ All records of financial transactions should be kept and maintained in accordance with the Generally Accepted Accounting Principles/International Accounting Standards/International Financial Reporting Standards and should comply with applicable local laws.
- ❑ Records should be taken to include both hard copy records and records stored on electronic media.

### **Books of Accounts**

The books of accounts used by the Utility shall consist of the following:

- ❑ Records for transactions in chronological order, known as the journals or books of original entry; and
- ❑ Records for classifying and summarizing the effects of the transactions on individual accounts, known as ledgers or books of final entry.

### **Books of Original Entry**

Books of original entry or journals shall be used to record in time sequence, financial transactions and information presented in duly certified and approved accounting documents.





The books of original entry shall consist of the following journals:

- General Journal
- Special Journals
- Cash Receipts Journal
- Cheque Disbursements Journal
- Cash Disbursements Journal

The basis of recording in the journals shall be the Journal Entry Voucher

### **Cash Records**

Cash Records shall be used to record collections, deposits, withdrawals and disbursements of cash. The cash records shall be maintained by the responsible Officers.

### **Cashbook – Cash in Bank**

Cashbook for Cash in Bank shall be used to record deposits of collections (Debit column) and withdrawals from the bank through issuance of cheques (Credit column). The Accountant shall, at the end of the month or when required rule and foot the cashbook & carry out certification in the cashbook:

I HEREBY CERTIFY that the foregoing is a correct and complete record of the cash transactions during the period from \_\_\_\_\_, to \_\_\_\_\_ inclusive, as indicated in the corresponding columns.

Signature Over Printed Name \_\_\_\_\_



## **Duration for which Records shall be kept**

Every Utility will keep her records for a period defined by the laws of the respective country & the Utility policies.

### **Bank Account Records**

<b>Record Description</b>	<b>Destroy after</b>
Cheque Book/Butts	_____years
Cancelled Cheques	_____years
Cheque Listings	_____years
Register of Cheque Forms	_____years
Bank Deposit Forms	_____years
Bank statements	_____years
Deposit Summary Sheets	_____years
Bank Reconciliation statements	_____years



## Debtors

Record Description	Destroy after
Debtors Invoices	_____years
Debtors Statements	_____years
Debtors Trial Balance	_____years
Debtors Ledger	_____years
Debt Recovery Correspondence	_____years
Receipts	_____years

## Ledgers and Journals

Record Description	Destroy after
Journals	_____years
Journal update	_____years
General ledgers Journal	_____years
Subsidiary Ledgers	_____years



## Creditors

<b>Record Description</b>	<b>Destroy after</b>
Cash Books	_____years
Petty cash Vouchers	_____years
Creditors Invoices	_____years
Creditors Ledger	_____years
Subsidiary Ledgers	_____years
Creditors Statement	_____years

## Financial Statements

<b>Record Description</b>	<b>Action</b>
Annual Statements of Accounts	Retain Permanently
Annual Budget	Retain Permanently
Quarterly Budget Comparisons	Retain Permanently
Auditor's Report	Retain Permanently



## **Personnel Records**

<b>Record Description</b>	<b>Destroy after</b>
General Records	_____years _____after leaving
Payroll Records	_____years

## **10.2 Accounting Forms and Reports**

### **Journal Entry Voucher (JEV)**

The Journal Entry Voucher shall be used for all transactions of the Utility, whether cash receipts, cash/cheque disbursements or non-cash transactions. It shall be prepared by the Accounting Unit based on transaction documents presented. Accounting journal entries shall be reflected therein and it shall serve as the basis for recording the transactions in the appropriate journals.

### **Disbursement Voucher (DV)**

The Disbursement Voucher shall be used by the Utility for all money claims. The number shall be indicated on the DV.

### **Petty Cash Voucher (PCV)**

The Petty Cash Voucher shall be used for disbursements out of the Petty Cash Funds.



### **General Payroll (GP)**

The General Payroll shall be used for the payment of salaries, overtime pay and other emoluments of Utility officers and employees.

### **Purchase Order (PO)**

The Purchase Order shall be used to support purchase of equipment, works, supplies and materials, etc.

### **Stores Requisition Voucher (SRV)**

The Purchase Request shall be used to request for the purchase of inventory/item not available on stock and it shall be the basis of preparing the Purchase Order.

### **Certificate of completion and Inspection Report (AIR)**

Certificate of completion and Inspection Report shall be used to acknowledge the completion of works & receipt of supplies and equipment purchased and inspection made thereof.

### **Requisition and Issue Slip (RIS)**

The Requisition and Issue Slip shall be used to request supplies and materials that are carried in stock.

### **Stock Card (SC)**

The Stock Card shall be used to record all receipts and issuances of supplies. The Stores Unit shall maintain it.



### **Cheque Register**

The Cheque Register shall be used to record all cheques issued and where claimants shall be required to acknowledge receipt of the cheque.

### **Report on the Physical Count of Inventories (RPCI)**

The Report on the Physical Count of Inventories (Appendix) shall be used to report the physical count of supplies by type of inventory as of a given date. It shows the balance of inventory items per cards and per count and shortage/overage, if any.

### **Report on the Physical Count of Property, Plant and Equipment (RPCPPE)**

The Report on the Physical Count of Property, Plant and Equipment shall be used to report the physical count of property, plant and equipment by type as of a given date unusually at the close of financial year.

### **Inventory and Inspection Report for Unserviceable Property (IIRUP)**

The Inventory and Inspection Report for Unserviceable Property shall be used as basis to record dropping from the books the unserviceable



properties carried in the Property, Plant and Equipment and Inventory accounts.

### **Statement of Management Responsibility for Financial Statements**

Statement of Management Responsibility for Financial Statements shows the management responsibility for the preparation and presentation of its financial statements. The statement shall be signed by two members of the Board of Directors. It shall form an integral part of the financial statements, all of which shall be transmitted to the concerned agencies.

### **Year-end Financial Statements**

The Finance and Accounts Manager shall prepare at the end of the year the following financial statements of the Utility:

- Balance sheet;
- Statement of income and expenses
- Statement of equity; and
- Statement of cash flows and
- The notes to the financial statements.

### **Interim Reports**

Interim reports are financial statements required to be prepared at any given period or at a financial reporting period shorter than a full financial year, without closing the books of accounts. The following





interim financial statements and the Notes to Financial Statements shall be prepared and submitted:

- Balance sheet;
- Statement of income and expenses; and
- Statement of cash flows

The interim reports shall be prepared employing the same accounting principles used for annual reports.

## 10.3 Other Financial Records

### General Journal

This journal shall be used to record all transactions that cannot be entered in the special journals. It provides columns for the date, the JEV number, particulars which give explanation for the transactions recorded, the account code used, posting reference and the debit and credit amount.

### Special Journals

The special journals are specifically designed to record transactions that are repetitive in nature. Special columns are provided to facilitate summation and postings in the general ledger.



## **Books of Final Entry**

The books of final entry are the General Ledger and Subsidiary Ledgers.

### **General Ledger (GL)**

The General Ledger is a book of final entry containing accounts arranged in the same sequence as the chart of accounts. Totals of columns in the special journals and the individual entries in the General Journal are directly posted in this book. At the end of each month, the accounts are footed and at the end of the year, these are totalled, ruled and closed and the balance extracted to serve as the opening balance of the new fiscal year.

### **Subsidiary Ledger (SL)**

The Subsidiary Ledger is a book of final entry containing the details or breakdown of the balances of the controlling account appearing in the General ledger. Postings to the subsidiary ledgers generally come from the source documents. Examples of general ledger accounts, which have subsidiary ledgers, are Cash in Bank – Local Currency Current Accounts, Accounts Receivable, Accounts Payable, etc. The totals of the subsidiary ledger balances shall be reconciled to their respective control account at the end of every month.



### **Investment Ledger Card (ILC)**

The Investment Ledger Card is a subsidiary ledger to be kept for each type of investment that shall record the details of investments.

### **Real Property Ledger Card (RPLC)**

The Real Property Ledger Card is a subsidiary ledger card to be kept for each real property (land), which records the property description, location, acquisition cost, additions, and disposal.

### **Construction in Progress Ledger Card (CIPLC)**

The Construction in Progress Ledger Card is a subsidiary ledger card to be kept for each construction-in-progress that records the amount paid per billing of the contractor in case of construction by straight contract and the amount paid for materials, labour and overhead in case of construction by administration.

### **Registers**

Registers are accounting records that shall be maintained to monitor accounts/assets not recorded in the books of accounts.



## **Accounting Forms and Reports**

The Accounting Forms and Reports constitute the means by which financial transactions and information are reported and recorded in the journals.

### **Trial Balance**

Trial balance is a list of all the general ledger accounts and their balances at a given time. The accounts are listed in the order in which they appear in the ledger, with the debit balances in the left column and credit balances on the right column.

### **Purpose of the Trial Balance**

The trial balance is prepared:

- To prove the mathematical equality of the debits and credits after posting;
- To uncover errors in journalising and posting; and
- As basis for the preparation of the financial statements.

### **Preparation of the Trial Balance**

The preparation of the Trial Balance shall be carried out as follows:

- List the account titles and their debit/credit balances based on the accounts and amount reflected in the general ledger;
- Total the debit and credit columns; and
- Prove the equality of the two columns.



### **Pre-Closing Trial Balance**

The pre-closing trial balance is the trial balance prepared from the general ledger accounts after the adjusting journal entries have been journalized and posted. This is also termed as adjusted trial balance.

The trial balance for the interim financial statements shall also be supported by a schedule of subsidiary ledger balances of the controlling accounts in the General Ledger.

### **Post-closing Trial Balance**

Post-closing trial balance is the trial balance prepared at the end of the year after the closing entries are journalized and posted in the general ledgers. In the Post-closing Trial Balance, all the nominal accounts (revenue, expense and intermediate) are closed and the real accounts (assets, liability and equity) are shown with balances.

### **Balance Sheet**

The Balance Sheet shows the financial condition of the Utility at a specific date. It presents information on the assets, liability and the Utility equity of the agency.

### **Statement of Income and Expenses**

The Statement of Income and Expenses shows the income and expenses of the Utility at the end of a particular period. It presents the detailed information of the income and expenses recognized during the period covered.



### **Statement of Equity**

This simply gives the financial interest/stake of the shareholders in the organisation.

### **Statement of Cash Flows**

The Statement of Cash Flows shows the Utility's cash activities. It reports cash receipts and cash payments and net change in cash resulting from operating, investing and financing activities of an agency during a period, in a format that reconciles the beginning and ending cash balances.

### **Notes to the Financial Statements**

The Notes to the Financial Statements amplify or explain the items presented in the main body of the financial statements. These are explanatory notes on the financial statements and/or accounting policies that should give additional information to the financial statements. In the Notes, the Utility should be expected to report the economic substance rather than the legal form of the transactions and to make adequate disclosure.



The Notes to Financial Statements include the following:

- ❑ Summary of significant accounting policies adopted and followed by the Utility entity;
- ❑ Narrative descriptions or detailed analyses of amounts shown on the face of the balance sheet, statement of income and expenses and statement of cash flows;
- ❑ Customary or routine disclosure – which are information about measurement bases of important assets, restrictions on assets, contingent assets/liabilities, important long term commitments not recognized in the body of the statements, etc.;
- ❑ Disclosures of changes in accounting principles- changes in accounting principles, practices or methods of applying them; and
- ❑ Disclosures of subsequent events – disclosure of events that affect the agency directly and that occur between the date of, or end of the period covered by, the financial statements and date of completion of the statements are necessary; if knowledge of the events might affect the interpretation of the statements, even though the events do not affect the propriety of the financial statements themselves.

## CHAPTER 11

### Projects



Lake Victoria Water and Sanitation project in East Africa. Photo © UN-Habitat





## 11.1 General Policies

### **Budgeting and Accounting System**

For special funds/projects, the budget is agreed with a donor and the accounting systems therefore reflect the major donor concerns and the fixed budget lines.

### **Separate Record keeping over specialized funds**

The Utility should maintain a separate accounting system over specialized funds.

### **Specialized (Project) Funds Maintained in Separate Bank Accounts**

To avoid the appearance of commingling special funds with the Utility own funds, separate bank accounts should be maintained for specialized funds.

### **Periodic Reporting to Benefactors for Specialized Funds**

A periodic accounting of funds and property related to special funds is to be made to benefactors.



## **Reconciliation between the General Ledger and the Bank Statements**

Monthly reconciliation should be completed between the General Ledger and bank statements.

## **11.2 Treatment of Project Funds**

### **Receipts and Payments**

- Upon receipt, special funds should be deposited in a separate checking account, with the receipt being recorded to the Cash Receipts Journal.
- Cheques in payment of related eligible expenses should be made from the special fund bank account, with a recording to the special fund Cash Disbursements account. All such transactions should be initiated, approved and completed by the Finance and Accounts Department.
- Interest earned in an interest-bearing fund account should be credited to the special fund account as special fund income.
- The General Ledger control account should be reconciled with the special Account Subsidiary Ledger.
- Regular accounting reports should be sent to donors summarizing the receipt, use, management and disposition of all contributions in the required reporting format.



## **Internal Accounting Controls**

- Use of pre-numbered contribution acknowledgement form
- Separation of duties between managing contributions and accounting for contribution.

## **Contributions of Cheques and Cash**

- All contributions in the form of cheques, cash or credit cards received in the mail should be recorded and delivered on the day they are received to the Finance and Accounts Department.
- The Finance Department should prepare and mail to the donor a pre-numbered contribution acknowledgement form.

## **Contributions of Securities**

- For the transfer of securities certificates or their ownership to Utility, the certificates should be delivered by certified or registered mail, or by hand.
- A stock power form, signed by the donor and naming the Utility as transferee, should be prepared and formally executed.
- A pre-numbered contribution acknowledgement form should be prepared by the Finance and Accounts Department and sent to the donor.



## **Contributions of Personal Property**

- Personal property may be accepted when it can be readily sold or used in connection with the mission of the Utility.
- A contribution of personal property in excess of Shs\_\_\_\_\_ (determined by the Utility) should be appraised by a certified professional appraiser, and a copy of the appraisal must accompany the gift.
- A pre-numbered contribution acknowledgement form should be prepared by the Finance and Accounts Department when a gift of personal property is accepted.

## **Contributions of Real Estate**

- Real estate in the form of a residence, business, commercial building, undeveloped land, etc., may be accepted provided an environmental and toxic waste review has been conducted and the property can be sold or used in the mission of the Utility. A certified appraisal performed within 60 days of the contribution should be done.
- Upon acceptance, a contribution acknowledgement form should be completed by the Finance and Accounts Department and sent to the donor.

## **Promises to Give**

- In order to recognize unconditional promises to give as income, the contribution should be acknowledged by the



signature of a written pledge, tape recording, written register or other means that permits subsequent verification and is legally enforceable.

- Conditional promises to give should be recognized as a contribution at the time the condition is substantially met.
- Upon acceptance, a pre-numbered contribution acknowledgement form should be prepared by the Finance and Accounts Department and mailed to the donor.

### **Accounting for Contribution Revenue**

- Contributions received for restricted purposes should be entered in a separate donor restricted fund by the Finance and Accounts Department.
- Reports should be prepared quarterly/annually to donors on the deposit, management and disposition, and use of the funds in accordance with specified reporting formats, or where undefined/unspecified, in an acceptable reporting format that complies with International Accounting Standard 1 – Presentation of Financial Statements.

### **Record keeping for Contributions**

The contribution acknowledgement form should be routed by hand/ by mail/electronically to the Finance and Accounts Department, which should enter the information in the agency's donor file/software package.

This manual is part of a Utility Management Series for Small Towns. It can be used either as a training module to support the delivery of capacity building programmes in utility management and operations or as a reference manual to guide operations and maintenance staff in designing and implementing programmes to reduce the rate of Unaccounted-For-Water. When used by urban water utilities, the manual should be widely circulated to ensure that all staff and Supervisors involved/working in concerned Departments/Sections receive a copy. This will ensure a systematic and consistent approach to the implementation of an Illegal Water Use Reduction Strategy.

HS/122/12E

ISBN (Series) 978-92-1-133404-3

ISBN (Volume) 978-92-1-132535-5

**UN HABITAT**  
FOR A BETTER URBAN FUTURE

UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME

P.O. Box 30030, Nairobi, Kenya

Tel: +254-20-7624910;

Fax: (+254) 207623588

[infohabitat@unhabitat.org](mailto:infohabitat@unhabitat.org)

[www.unhabitat.org/publications](http://www.unhabitat.org/publications)