



**CHILDREN IN FREEDOM**  
*Education For The Citizenry We Want*



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# ACCOUNTING POLICIES AND PROCEDURES

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Manual



Aug 2, 2021

CHILDREN IN FREEDOM (CIF)  
&

CIF Schools

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We also thank those who shared with us information on their Accounting Policies And Procedures and their practical experiences.

We thank you all for your contributions.

Executive Director

Children in Freedom

New York, Nairobi

## 1.1 ACCOUNTING POLICIES AND PROCEDURES

This policy manual is intended to serve as an overall guideline for accounting policies and procedures practiced by Children in Freedom to ensure that its financial reporting system has integrity.

Through the laid down procedures, Children in Freedom seeks to ensure its accounting system can be relied upon to produce accurate and reliable information on a timely basis.

The production of the manual is an ongoing exercise and provisions have been allowed for the systematic review of procedures on an annual basis.

This will ensure that new situations which are encountered are addressed and incorporated into the manual.

## 1.2 General Accounting Policies

The financial statements for Children in Freedom shall be prepared on the basis of the following accounting policies.

### **GP 1 Consistency of Accounting Methods**

- The accounting method and reporting shall in general remain the same from period to period to allow for comparability of information for different periods.
- Any exceptions from the standard accounting method shall be disclosed within the explanatory notes to the financial statements.

### **GP 2 Matching Principle**

- The timing of reporting revenue and expenses should match with the timing of the occurrence of the income and expenses.
- Transactions are recorded when incurred and not just when cash is received or paid.

### **GP 3 Accrual Basis**

- As part of the matching principle, expenses and revenues are accrued within the period in which services or goods are provided.

### **GP 4 Simplicity and Accuracy**

- The accounting system is based on the need for information that is correct and easily understood by the users of that information.

### **GP 5 Transparency**

- The accounting system is based on the need to provide a clear flow of funds from the receipt of funds to the related expenditures.
- Journal entries should include supporting documents and descriptions so that the financial data can be explained or justified.

### **GP 6 Materiality**

- All financial data or transactions that will affect the financial statements have to be recorded and/or disclosed.

### **GP 7 Disclosure**

- All important information about the organization's financial position and operations has to be reported in the financial statement in a full and fair manner.

## **GP 8 Communication**

- Financial information and activities should be reported and accounted for accurately and on a timely basis.
- Any planning of activities with financial implication should be submitted to the defined appropriate level of management for approval before implementation.

## **GP 9 Separate recording of Project Transactions**

- Each project shall maintain its records separately:
- Accounting records are maintained to record transactions for different projects with clear separation within the system.
- Expenses for a project are clearly classified by the project name(s) to enable the separation.
- Financial reports are prepared for each individual project and shall be included in the overall report prepared for the entire organization.
- GP 10 Cost allocation
- Where costs are shared for a common purpose between projects or programs, allocations will be done using an equitable and consistent method.
- The basis of allocation is justifiable and clearly documented.

## **GP 11 Budgetary Control**

- Primary responsibility for budgetary discipline and disbursement of funds within a budget rests with the Project Managers under the guidance of Senior Management.
- Project activities must be confined within approved budgets.
- Monthly reports submitted to the Senior Management Team from Finance Department should highlight budget lines requiring reallocation or amendment.
- The decision to request for budgetary amendments shall be made through consultation between the project Manager, Head of Finance and Senior Management Team.

## **GP 12 Accounting in Local Currency**

- In general, accounting at the Kenyan office is done in Kenyan Shilling (KES). Depending on budgetary and donor demands, additional currencies may be instated.

## **GP 13 Capital Expenditures (Depreciation policy)**

- Assets procured with Children in Freedom own funds are depreciated in accordance with accounting standards within the Balance Sheet and Profit and Loss statement. A specific written statement has to be created for any asset where deviation from these rules is sensible, e.g. due to considerably shorter utilization life expectancy.

- Assets procured with donor funds are fully charged and reported to the donors and are expensed in the profit and Loss account.

#### **GP 14 Approval of all payments**

- All expenses require the signatures of two people (signatories) before the payment is being made. The signatories are responsible for the correctness of the expense, its allocation to the donor and budget line as well as for the regulation referring to the type of expense.

#### **GP 15 Timeliness**

- Accounts shall be kept on a current basis, with short time lapses between transaction and recording in the books. Year-end reconciliation shall be completed as soon as possible after period end.

### **1.3 ACCOUNTING PROCEDURES**

The following accounting procedures shall apply in the financial operations of Children in Freedom.

#### **7.3.1 Transparency in all payments**

- All payments made for invoices presented or advances requested (expenses) shall be authorized by two pre-determined and responsible individuals (herein afterwards appropriate Signatories) before the expense is being paid.
- In general, Signatories are to sign only those expenses which fall into their respective line of duty and expertise. In addition, at least one of two Signatories must be a member of CIF senior management.
- By signing off on an expense, both signatories confirm that the expense was/is:
  - Necessary for the purposes of Children in freedom.
  - Correct in all material aspects (e.g. addition of line items, name/address of vendor noted, local regulations regarding invoices adhered to, amount paid is the same as stated)
  - In receipt of the goods/services purchased or clearly stated if delivery of goods/services is still pending
  - If donor funded allocated to the correct donor and budget line
  - If charged directly to CIF that no donor could be charged with the costs
  - If donor funded necessary for the purpose of the project in question, covered and allowed under the budget and general donor regulation, and still within the budget allocation of the project
  - In adherence to all internal regulation governing the specific type of expense, e.g. procurement guidelines.
  - In adherence to all external regulation, especially local and state law.
- The Finance Department has to reject all requests for payment where the allocation to the donor and budget line is not clear as well as those where internal rules are violated.



- The Managing Director reserves the right to be an additional signatory to all payments above a certain threshold.

## **AP 1 Procedures over Cash**

### **AP 1.1 petty cash**

- Petty cash is maintained for payment of routine and minor expenses such as office running expenses.
- The amount of petty cash for office shall not exceed Kshs 20,000 at any one time. Petty cash is kept at all times in strongholds, to which only one individual determined by the Head of Finance has access.
- The request for Petty cash is made using the Petty cash request form
- The form is to be clearly marked as to whether an advance (float) or a payment for an expense already incurred is being requested.
- In case of advances, a specific date is to be stated by which the advance is expected to be repaid or accounted for.
- For all requests a summary of expected or already incurred expenses is to be provided; in the latter case supporting receipts are to be attached. Where documents are smaller than A5, they are to be affixed (glued or stapled) to A4 sheets. Documents which may fade over time (e.g. heat-sensitive paper) are to be copied and both original and copy attached. Multiple documents attached to a request form shall be numbered and the numbers repeated in the detailed listing.
- All expenses are approved by the appropriate signatories before the payment is being made.
- Expenditure on taxi travel and mileage claim requires where practicable prior approval from respective departmental heads.
- Petty cash shall be used for payments of Kshs 5,000 and below only. Other payments shall be made by cheque.

## **AP 2 Procedures over Bank Accounts**

### **AP 2.1 Account opening/closure**

- The Managing Director in consultation with the Head of Finance shall approve all requests for the opening and closing of accounts by signing the letter to the bank.

### **AP 2.2 Signatories and Bank Mandate**

- Bank signatories will be limited to the Management Team.
- The account-operating mandate shall be a minimum of two signatories for any transaction.
- It is the duty of those signing cheques /authorizing electronic transactions to ensure that supporting documentation complete with the information and signatures is available. If the supporting documentation is incomplete or obvious inconsistencies exist, the cheque signatories have to return the

documentation and any prepared cheques unsigned to the Finance department for rectification.

- The Managing Director reserves the right to designate a threshold below which only one signature is needed.
- The Managing Director reserves the right to designate a threshold above which his signature is required.

### **AP 2.3 Bank Reconciliation**

- Cashbook and bank statements are to be reconciled at a date not later than the 20th day of the following month.
- Printed reconciliation reports are approved by the Head of Finance. The Managing Director reserves the right to review these reconciliations.
- Reconciliation items should be posted to the accounting system.
- Payments that remain outstanding for 6 months or more shall be followed up to establish the need for reversal of the original entry.

### **AP 3 Procedures over Payments**

- Payments to suppliers and service providers require the use of a payment voucher. Petty cash request form may be used to approve petty cash.
- Information on the payment voucher shall include project code, donor code, and budget line information and carry the prescribed two signatures. Where not easily determined from the documentation, the expense type shall also be noted.
- Reasons for the payment shall be clearly stated to assist the reviewer understand the purpose of the expenditure and to verify if it was properly incurred for project purposes.
- Documentation to support the payment request shall be attached to the payment voucher. The supporting documents such as invoices, purchase orders, delivery documents, travel vouchers etc. must where necessary be signed by the appropriate signatories and be in agreement with internal regulation such as procurement guidelines and travel cost reimbursement procedures.
- Supporting documentation shall be in original form and not duplicates. In cases where original documentation in support of a payment is not available, the duplicates shall be marked accordingly and reasons stated for the non-availability of the original on the face of the duplicate. The Head of Finance shall certify on the face of the duplicate that it has not previously been paid.
- No expense may be paid that does not confirm with the prescribed information and signatures. The Finance Department will return such documents to the responsible Project Manager for completion.
- Upon payment, the supporting documents shall be stamped "PAID" to prevent duplicate payments.

#### **AP3.1 Procedures over Internal Controls**

Internal controls are procedures put in place to ensure that assets are protected and financial affairs are properly managed in accordance with established policies, procedures and objectives.

The procedures in place are generally based on the principles of:

- ✓ Separation of duties whereby several persons are involved in any transaction cycle and no particular individual is in control of the entire process
- ✓ Supervision and review of transactions at key points to ensure their accuracy and appropriateness.

#### **AP 4.0 Transaction approval**

- ✓ Approval must be obtained for all transactions at their key points by the designated managers before payment is made.

##### **AP 4.1 Reconciliation Control**

- ✓ Reconciliation of key areas within the accounting system provides reasonable assurance of the accuracy of the financial data:
- ✓ Bank accounts are reconciled to the Bank statements
- ✓ Accounts payable are reconciled to supplier statements
- ✓ Payroll reconciliation to highlight changes from the normal payment levels.
- ✓ Reconciliation of subsidiary ledgers to the control accounts in the General ledger.

##### **AP 4.2 Use of Pre-numbered Accountable Documents**

- ✓ Records are maintained by listing the number series of available stock of the following documents.
  - Internal order request vouchers
  - Purchase order vouchers
  - Petty Cash vouchers
  - Petty Cash summary
  - Cheque Books
  - Payment Vouchers
- ✓ The Managing Director in agreement with the Head of Finance reserves the right to approve systems by which through electronic or other means only sequentially numbered books and/or documents are created.

##### **AP 4.3 Calculations Check**

- ✓ Arithmetical accuracy of documents such as invoices, purchase orders, expense summaries, and payroll is verified and evidenced by a signature of the responsible staff member.

##### **AP 4.4 Control over Physical Access**

- ✓ Organization and project assets are safeguarded by ensuring physical access is restricted to designated persons.

#### **AP 4.5 Insurance**

- In Kenya, project assets and those owned by the organization are insured against losses that may arise due to a variety of risks such as burglary, fire, or theft.

#### **AP 4.6 Documentation and record retention**

- All documents supporting accounting transactions shall be filed in lockable cabinets. Files will be retained in the organization for a minimum period of 10 years.
- Computer files with finance data will be backed up on a regular, at least on a fortnightly basis and stored both in the office and off site.

#### **AP 5 Procedures over Financial Planning**

- Cash flow projections (forecast) shall be used as the primary tool for financial planning.
- The forecast shall be prepared on a quarterly basis by the Head of Finance.
- Consideration shall also be made for special cash requirements arising.
- As a general guideline, the forecast shall be based on the following procedures:
  1. All anticipated expenditure for the quarter shall be listed monthly
  2. All supplier payments falling due in the particular quarter shall be listed
  3. The targeted minimum cash balance for the quarter shall be set
  4. All anticipated receipts from donors or other sources shall be listed
  5. Estimated cash balance at the beginning of the period shall be factored into the computation.
  6. Any deficit or surplus in cash shall be computed from the above information.

#### **AP 6 Procedures over Financial Reporting**

- The Finance department shall close its books on a monthly basis, by the 21<sup>st</sup> of the subsequent month. Year-end accounting and closure of books shall be completed by the 15th of February of the following year.
- The following reports shall be produced by the Finance department and submitted to the Managing Director for review and approval:
  1. Project expense reports against budget prepared by the Head of Finance on a monthly basis.
  2. Bank reconciliation statements prepared on a monthly basis and reviewed by the Head of Finance
  3. Forecasts shall be prepared quarterly on a monthly basis.
  4. Project statement of fund balances prepared quarterly on a monthly basis.
  5. Ageing analysis of project payables and receivables prepared on a monthly basis.

#### **AP 7 Procedures over Foreign Currency Conversions**

- The official exchange rates of the European Union - (Info Euro rates) shall be used to convert transaction incurred in the different currencies.
- Expenses and income incurred in other currencies are recorded in these currencies, with their KES equivalent being calculated by the accounting system using the info Euro rate.
- Exchange gains and losses which arise due to use of the info Euro rate to translate financial data to the required reporting currency and due to the revaluation of Balance sheet items at the end of the reporting period based on the closing exchange rate shall be recorded in the income statement of the organization.

#### **AP 8 Procedures over Staff Accounts**

- It is not the policy of Children in Freedom to provide loans or advances to staff
- Receivables arise from staff members in the following circumstances:
  - When petty cash floats are not fully accounted for.
- Other recoveries are effected through the payroll for the subsequent month.

**APPENDIX 1 : INDIVIDUAL STATEMENT OF COMMITMENT**

“I \_\_\_\_\_ (name), have read and understood the standards and guidelines outlined in this Accounting Policies And Procedures. I agree with the principles contained therein and accept the importance of implementing the Accounting Policies And Procedures and practices while working with or associated with CIF

Name \_\_\_\_\_

Job title/position/role \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Sign Executive Director

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke.