



ACCOUNTING FOR PROJECTS

National Government Entities

Projects

Legal Framework

Conditions for receiving grants and donations by national government or its entities or third parties (Section 47)

Regulations on grant administration (Section 48)

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 47 of the PFM Act,

Definition of terms

(a) Donation : a gift or a contribution;

(b) Grant : financial or other assistance by a development partner which is not repayable and —

(i) under which public money is paid to or used by a grant recipient;

(ii) which is intended to finance or facilitate the development of projects or delivery of services or otherwise assist the grant recipient to achieve goals that are consistent with the policy objectives of the national government; and

(iii) under which the grant recipient is required to act in accordance with any terms or conditions specified in a grant agreement.

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 47 of the PFM Act,

© Grant recipient:

the national government or a national government entity authorised to control or spend money under this Act or an incorporated or unincorporated body not otherwise authorised to control or spend money under this Act;

(d) Intended beneficiaries :

the people of Kenya whom the projects or public services financed by a grant are intended to benefit;

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 47 of the PFM Act,

1. The national government or a national government entity may receive a grant or donation from a development partner with the approval of the Cabinet Secretary and only as provided by this section
2. Funds received in the form of grants or donations shall only be spent in accordance with Articles 221 (Budget estimates and annual Appropriation Bill) and 223 (Supplementary appropriation) of the Constitution and this section.

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 47 of the PFM Act,

3. As soon as possible after receiving the grant or donation, the recipient shall notify the Cabinet Secretary of the receipt.
4. If a project that is being financed by a grant or donation requires national government funding, the project may only be started when—
 - (a) the required funding has been appropriated in accordance with this Act or is authorised by other legislation; or
 - (b) the Cabinet Secretary has given a written authorisation for the project to start.

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 47 of the PFM Act,

5. The recipient of a grant or donation from a development partner shall record the amount or value of the grant or donation in its books of accounts.
6. Subject to audit in terms of Article 229 (4) of the Constitution, the recipient of a grant or donation shall administer and account for the grant or donation by using –
 - (a) government financial accounting and auditing; OR
 - (b) any financial accounting rules and procedures for money specified in the agreement between the recipient and the development partner

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 47 of the PFM Act,

7. The Cabinet Secretary may in addition to the audit under subsection (9) (previous paragraph), permit a donor of a grant to audit such funds on the basis of its own financial accounting rules.

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 48 of the PFM Act,

- (1) Regulations approved by Parliament shall provide for the administration, control and management of grants, including—
- (a) procedures to ensure that grants are spent on the basis of the integrated national development plan;
 - (b) procedures for the allocation and disbursement of the grants;
 - (c) requiring that grants be used only to finance programmes within the integrated development plan;
 - (d) the publication of transparent criteria for the allocation of grants;

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 48 of the PFM Act,

- (e) requiring specific terms and conditions in agreements to which grant recipients are subjected;
- (f) procedures for the budgeting, financial management, accounting and reporting of grants by grants recipients;
- (g) procedures under which a third party may be authorised to receive, control or pay public money as a grant; and
- (h) measures to ensure that a third party authorised to receive, control or pay public money as a grant, or responsible for any other aspect of administration of a grant, is subject to the same obligations as a public officer under this Act.

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 48 of the PFM Act,

Regulations under subsection (1) shall include measures to ensure public disclosure, accountability and participation in relation to the grants, including—

- (a) timely public disclosure to intended beneficiaries of the allocation and disbursement of grants to grant recipients;
- (b) timely public disclosure by grant recipients to intended beneficiaries of expenditure and performance achieved in relation to the grant;
- (c) measures to facilitate intended beneficiaries to participate in the design and management of projects or public services financed by the grant;

Project Reporting Requirements – Section 47 & 48 of the PFM Act

As per Section 48 of the PFM Act,

(d) measures allowing intended beneficiaries to report instances of non-compliance with the regulations or grant agreement;

(e) sanctions to be imposed on grant recipients for non-compliance with grant conditions by any grant recipient; and

(f) obligations of a public officer or third party authorised to receive, control or pay public money as grants.

Project accounting

IPSAS Cash

IPSAS Cash

- Cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity.
- Objective: to prescribe the manner in which financial statements should be presented under the cash basis of accounting.
- Project financial statements prepared under the cash basis, provide readers with information about:
 - (a) the sources of cash raised during the period;
 - (b) the purposes for which cash was used and,
 - (c) the cash balances at the reporting date.

IPSAS Cash

The standard comprises of two parts:

Part I is mandatory.

- It sets out the requirements which are applicable when preparing financial statements under the cash basis of accounting
- It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes and deals with other specific reporting issues.

IPSAS Cash

Part II is mandatory.

- It identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and transparency of its financial statements.

IPSAS Cash

Components of the IPSAS Cash financial statements

- Statement of receipts and payments
- Statement of financial assets and liabilities
- Statement of cash flows
- Statement of comparative budget and actual amounts
- Notes to the financial statements

Other Important Information to note

- *Financial and non-financial* performance of the project must be included
- The financial amounts should be *rounded* to nearest shilling.
- The project report should be signed by the responsible officers as authorized by the board of directors or equivalent authoritative arm.
- The notes should be customized to fit the nature of the project and anything not relevant deleted.
- The *comparative* amounts for the project statements and notes should be as per the *prior year audited amounts*.
- Ensure casts have been done and notes agree to the financial statements

Compliance with Development Partners funding agreement

Development partners

- Bilateral partners such as DANIDA, USAID, Government of China, Government of Spain, DFID, SIDA etc
- Multilateral partners such as GF, UNDP, UNEP, IDA, WFP, African Development Bank, European Development Fund etc

Compliance with Development Partners funding terms

- Budgets
- Counterpart funding/cost share/matching funds and development partner funding
- Procurement
- Risk management-due diligence, anti terrorism,
- Reporting and accountability
- Audit
- Retention of support documents
- Other terms of the agreements e.g. opening a segregated account, amendments to agreements etc.

Compliance with Development Partners funding terms

Budgets

- Development partners may opt to use government procedures for budgeting
- Each entity is responsible for developing work plans and budget in line with their own strategic plans as an integral part of planning for the total resources.
- The development partners will review the work plans and budgets for implementation.

Compliance with Development Partners funding terms

Counterpart funding/cost share/matching funds and development partner funding

- Development partners (DPs) may require the national government to contribute its own share of the pooled resources.
- The DPs will disburse funding based on approved work plans and budgets on request by the grant recipient
- A project can have a joint funding mechanism where several partners come together and contribute to one basket.
- Disbursements will depend on financial reporting on previous periods or achievement of agreed upon benchmarks

Compliance with Development Partners funding terms

Procurement

- The DPs and grant recipient may agree on the procurement procedures to be used within the agreement terms.
- DPs may allow the grant recipient to use its procurement procedures in this case Public procurement and asset disposal act for national government entities.

Compliance with Development Partners funding terms

Risk management

- The grant recipient are required to have risk management policies and procedures.
- It should identify potential risks and ways of mitigating the risks.
- Other matters involve carrying out due diligence in engaging vendors such as anti terrorism checks

Compliance with Development Partners funding terms

Reporting and accountability

Development partner may provide guidelines on reporting that include:

- Frequency or reporting: quarterly, monthly, biannual etc.
- Nature of reporting: programmatic, financial etc.
- Format of reporting
- Submission timelines

The recipient organisation is responsible for the management of funds, for timely accounting and financial reporting in accordance with agreed procedures.

Compliance with Development Partners funding terms

Audit

- Funds received in the form of grants or donations shall only be spent in accordance with agreed terms with the DPs.
- Other than the audit under Audit Act, donor of a grant can be permitted to audit such funds on the basis of its own financial accounting rules. The donor will contract an external auditor who will report to them as well

Compliance with Development Partners funding terms

Retention of documents

- Records management with regards to project documents is vital.
- Development partners may provide that the grant recipient must retain documentation to support charges to this project for a given period of time from the date of submission of the final expenditure report.

Compliance with Development Partners funding terms

Other terms of the agreements

Development partners will provide additional terms in the agreements that the grant recipient is required to adhere to:

e.g. opening a segregated account, amendments to agreements, duration of the project, closeout procedures, termination clauses, roles of each party among others.

Findings on project audit

Project audit findings

- Questioned costs: unsupported and ineligible costs
- Budget overruns
- Procurement procedures not followed
- Long outstanding/invalid reconciling items in the bank reconciliations
- Late reporting
- Non compliance with additional terms of the agreement
- Non-submission or late submission of statutory deductions
- Unreconciled fund balances
- Unrecorded or understated income



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