

ARUSHA URBAN WATER SUPPLY AND SEWERAGE AUTHORITY

P.O. Box 13600, Arusha
Tel. 255 027 250 6124
Fax: 255 027 250 4163 / 2548981
Email: auwsa@habari.co.tz

ACCOUNTING MANUAL

Second Edition
.....2004

Prepared by:
The National Board of Accountants and Auditors
P.O. Box 5128
Dar es Salaam
Tel. 255-22-2151745/2150648
Fax: 255-22-2151746
Website: www.nbaa.or.tz
E-mail: nbaa@raha.com

ARUSHA URBAN WATER SUPPLIES AND SEWERAGE AUTHORITY

Table of Contents

Chapter	Contents	Page
	Preface	3
I	Interpretation of Terms Used in the Authority's Accounting Manual	5
II	Introduction	8
III	Accounting System Overview	10
IV	Accounting Principles	12
V	Accounting Documentation	16
VI	Chart of Accounts	25
VII	Computer system	27
VIII	Accounting for Revenue	32
IX	Accounting for Expenditure	33
X	Accounting for Accruals and Prepayments	34
XI	Accounting for Payroll and Staff Payments	37
XII	Accounting for VAT	42
XIII	Accounting for Grants and Subventions	43
XIV	Cash and Bank Account Managements	45
XV	Accounting for Procurement	52
XVI	Accounting for Stock Control	56
XVII	Budget Preparation	57
XVIII	Management Information System and Periodic Reporting	59
XIX	Accounting for Fixed Assets	63
XX	Accounting for Current Assets	77
XXI	Accounting for Liabilities and Owners Equity	78
XXII	Project Accounting	79
XXIII	Annual Accounts	80
XXIV	Accounting for Borrowing	85
XXV	Accounting for Investments	
Appendices	A - Organization Chart of the Authority B – Chart of Accounts Accounting Forms and Documents	

PREFACE

1.1 BACKGROUND

The ARUSHA Urban Water Supply and Sewerage Authority (the Authority) was established under the auspices of the Water Works Ordinance Cap. 281 as amended in February 1997. It was declared a fully autonomous entity by order of the Minister responsible for water affairs in January, 1998 and was officially inaugurated on 21st May, 1999.

1.1.1 Vision

The vision of the Authority is to deliver excellent water supply and sewerage services commensurate with the World's best practice.

1.1.2 Mission Statement

The reasons for establishing this Authority are contained in the following mission statement of the Authority, **quote.....*continuous by strive to provide high quality water and sewerage services for 24 hours all year round at affordable tariffs while meeting the current and future demand for all categories of customers and stakeholders in Arusha Municipality and efficiently collect revenue for sustainable development ; unquote.***

1.1.3 Major Roles and Functions of the Authority

The major roles and functions of this Authority are as follows:

- To continuously plan, develop and maintain the provision of clean, portable and wholesome water in Arusha Municipality while conserving the water sources for sustainability;
- To plan, develop and maintain the sewerage system on any public land acquired or lawfully appropriated for that purpose so as to ensure hygienic sewerage collection and safe disposal;
- To set realistic water and sewerage disposal tariffs hence collect revenue from customers for water consumed and sewerage disposed by the Authority;
- To educate and provide information to the public on public health aspects of water supply and wastewater disposal and carryout all functions in an environmentally friendly manner;
- To create and maintain a good public image, while focusing on meeting customers' expectations, and
- To put in place and implement medium and long term investment programmes, financial plans and annual capital and recurrent budgets.

Accountability for the Authority

The Managing Director of the Authority is the Accounting Officer of the Authority. The functioning of the Authority is governed by the Public Finance Act No. 6 of 2001, and the Public Procurement Act No. 3 of 2001 together with their related regulations.

The Authority operates according to:

- (i) Water Works Ordinance
- (ii) Water Works rules
- (iii) Water Works Regulations; and
- (iv) Operations Guidelines
- (v) Memorandum of Understanding

However the Managing Director may issue such directions as may appear to him necessary and expedient for the efficient execution of those functions and safety, economy and advantage of the public's revenue and property. He must, however, ensure that such regulations and /or directions are within the agreed accounting policies.

The Authority may introduce modules as they develop appropriate financial systems

In some cases , exceptions from procedures laid down in this manual may be necessary. In these circumstances the request for such exceptions must be presented to and approved by the Board of Directors in writing.

The Accounting Manual

This Accounting Manual forms the authority or framework within which all financial and accounting transactions are managed in the Arusha Urban Water Supply and Sewerage Authority.

The Manual will serve as:

- A handbook to all accounting staff for their day to day duties.
- A reference guide for the accounting policies and procedures.
- The source of laid down controls for reducing the risk of errors and omissions.
- Act as a source of authority or basis to take action against all employees of the Authority who are dishonest in their duties. For that matter, every employee involved in the collection, receipt, custody, issue or payment of the Authority's funds must strictly follow the procedures provided in this Accounting Manual, otherwise he will be responsible for the losses caused as a result of his inappropriate actions.

Effective Date

The effective date for this Second Edition Accounting Manual is 1st January 2005.

CHAPTER I

INTERPRETATION OF TERMS USED IN THE AUTHORITY'S ACCOUNTING MANUAL

In this manual unless the context otherwise requires the captioned terms will be defined as follows:

- Accounting Policies** - The specific principles, basis, conventions, rules and practices selected and consistently followed by an organisation as being in its opinion; appropriate to its circumstances best suited to present fairly its productivity and financial position.
- Accounting codes** - The characters used to classify budget centres, revenue, expenditure, assets and the chart of accounts.
- Accounting bases** - The methods developed for applying fundamental accounting concepts to financial transactions and items, for the purpose of financial accounts, and in particular for determining:
- the accounting period in which revenue and costs should be recognized in the income and expenditure account: and
 - the amount at which material items should be stated in the balance sheet.
- Accounting Principles** - The rules that guide the measurement, classification and interpretation of economic information and communication of results through the medium of financial statements.
- Accounting Standards** - Those *accounting principles* that have been given formal recognition by a standard setting body.
- Accruals** - Under the accrual basis of accounting, the effects of transactions and other events are recognised when they occur (and not when cash or cash equivalent is paid or received) and they are recorded in the accounting records and reported in the financial statements of the period which they relate.
- Act** - Means the Arusha Urban Water Supply and Sewerage Authority Act No. ... of 1997.
- Assets** - The resources controlled by the Authority as a result of past events and from which future economic benefits are expected to accrue to the Authority.
- Authority** - Means the Arusha Urban Water Supply and Sewerage Authority.
- Balance Sheet** - A financial statement which shows the assets, liabilities and accumulated surplus of the Authority on a particular date, normally at the end of a financial period.
- Budget** - The qualification of the Authority's future plans for the next financial period in monetary units.
- Capital Expenditure** - Expenditure on the acquisition and installation of capital assets (e .g .a building or motor vehicle).

Capital Grant	-	Contributions towards expenditure of fixed assets made by the government and donor agencies to the Authority.
Current Assets	-	Cash, and other assets, which are intended for sale, conception or conversion into cash in the day to day operations of the Authority.
Current liabilities	-	Those liabilities which are expected to be settled in the normal course of the operating cycle or due to be settled within twelve months of the Balance Sheet date.
Depreciation	-	The systematic allocation of the depreciable amount of an asset over its useful economic life.
Financial Period	-	The period of time for which financial statements are prepared. In the case of the Authority, this period is a year from 1 st July to 30 th June.
Financial Statement	-	The term covers Director's report balance sheet, income and expenditure statement, cash flow statement, notes and other statements and explanatory material which are identified as being part of the financial statements.
Grants	-	Any form of assistance from the Government or a donor agency in the form of cash or transfers of assets to the Authority in return for past or future compliance with certain conditions relating to the operating conditions of the Authority.
Historical Cost Accounting	-	A method of accounting in which data are expressed in terms of the units of currency in which a transaction originally took place.
Management Accounting	-	An integral part of management concerned with identifying, presenting and interpreting information used for: <ul style="list-style-type: none"> • Formulating strategy; • Planning and controlling activities; • Decision making; • Optimising the use of resources; • Disclosure to stakeholders; and • Safeguarding assets.
Management Information System	-	An information system designed to provide information to management and staff at all levels in the Authority for decision making process.
Material (Materiality)	-	Describes information; the omission, non- disclosure or misstatement of which would mislead users of financial statements when making evaluations or decisions.
Net Realisable Value	-	The estimated proceeds from the sale of items of stock less all further costs to completion and less all costs to be incurred in marketing selling and distributing the item.
Net Book Value	-	Refers to the original cost of a fixed assets less its accumulated <i>depreciation</i> .
Prepayments	-	Refers to amounts paid in advance for expenses, which will relate to the income and expenditure statement after the balance sheet date.

- Prudence** - The inclusion of degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.
- Residual Value** - The realisable value of the assets at the end of its useful economic life, based on prices prevailing at the date of acquisition or revaluation where this taken place. Realisation costs should be deducted in arriving at the residual value.
- Revenue** - The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
- Standard Practice Instructions (SPIs)** - Standard Practice Instructions (SPIs) or accounting procedures or methods followed by the Authority in applying accounting principles.
- Trial Balance** - A list of the balances on accounts in the *general ledger* extracted to ensure that the total debit balances are equal to the total credit balances.
- Working Capital** - Working capital is the difference between the Authority's current assets and its current liabilities. Working capital is sometimes referred to as "*Net Current Assets/Liabilities*".

CHAPTER II

1.0 AN INTRODUCTION TO THE AUTHORITY'S ACCOUNTING MANUAL

1.1 Accounting Manual

1.1.1 Accounting Manual Administration

This accounting manual forms the Standard Practice Instructions designed for the Arusha Urban Water Supply and Sewerage Authority (the Authority).

1.1.2 Objectives :

The objectives of the accounting manual are:

- a) To describe the accounting procedures that are to be operated by the Authority.
- b) To explain the main accounting principles that are adopted by the Authority.
- c) To outline responsibilities for various operational aspects of the accounting system.
- d) To provide a source of reference and guide to accounting staff on their day to day duties in order to facilitate internal guide to strengthen Internal Controls thus avoiding errors and omissions.
- e) To provide an internal training guide to existing or newly appointed or recruited staff.
- f) To familiarise employees with, and to refresh their knowledge of the main accounting procedures they will encounter in the course of their employment.

1.1.3 Issue of the Manual

This manual has been issued by the Board of Directors of the Authority as per section 7 and 30 of the Waterworks Ordinance Government Notice No. 369 published on 25/7/97. This manual is the property of the Authority and will only be available to authorised officers. A register will be maintained to record the names of the officers issued with the manual.

The issue of this manual is not a personal one but an issue to the appointment, thus it should be handed over from one Officer to another taking over the appointment, and the accounting manual register updated.

1.1.4 Amendments and Additions

The manual will be stored dectronically on a floppy diskette which will be locked in a safe in the Managing Director's Office. Except where stated otherwise, any amendments to the manual shall be brought to the attention of the Managing Director.

Staff requiring amendment to the accounting manual, for reasons of it being unclear or causing misinterpretation, or additions of new procedures, must discuss the required changes with their respective Heads of Departments. All suggestions for changes must be backed up with

supporting arguments, evidence and a well documented revision recommendations. Management will then review the recommendation(s) and if the proposed revisions are accepted, management will table them to the Board for approval.

1.1.5 Overview of the Manual

The manual is written in the form of instructions but also includes explanatory paragraphs and examples on the purpose of specified procedures or the documents used. The intention is to make it helpful to users who are involved in the preparation of financial information.

Whenever appropriate, the manual incorporates a process map for the subject coverage as a whole. The use of the process maps aims at assisting users to understand the operations and also to check that procedures have been fully described.

So far as necessary to its purpose, the manual is in conformity with the Tanzania Accounting Standards (TAS) and guidelines as well as the International Financial Reporting Standards (IFRS).

1.1.6 Description

The manual contains twenty five chapters each describing the procedures for the main areas of financial accounting information. The main section titles are as follows:

- Introduction
- Accounting System Overview
- Accounting Principles
- Accounting Documentation
- Chart of Accounts
- Computer System
- Accounting for Revenue
- Accounting for Expenditure
- Accounting for Accruals and Prepayments
- Accounting for Payroll and Staff Payments
- Accounting for VAT
- Accounting for Grants and Subventions
- Cash and Bank Account Management
- Accounting for Procurement
- Accounting for Stock Control
- Budget Preparation
- Management Information System and Periodic Reporting
- Accounting for Fixed Assets
- Accounting for Current Assets
- Accounting for Liabilities and Owners Equity
- Project Accounting
- Annual Accounts
- Accounting for Borrowing
- Appendix A - Organisation Chart of the Authority
- Appendix B - Chart of Accounts
- Appendix C - Accounting Forms and Documents

CHAPTER III

Section 2 AN OVERVIEW OF THE AUTHORITY'S ACCOUNTING SYSTEM

2.1 The purpose of this part is to provide an overview and description of the main features of the Authority's accounting system.

2.2 Objectives

The *Objectives of the Authority's Accounting System* are:

- (a) To describe the Financial Accounting system to be followed, the accounting principles, the accounting documents, books of account and procedures to be used.
- (b) To record the Authority's assets, liabilities, income and expenditures so as to meet Tanzania and International Accounting Standards and other regulatory requirements.
- (c) To provide information to management for decision making for the running of the Authority's activities on day to day basis.
- (d) To provide a suitable financial framework for planning the Authority's future activities by means of annual budgets and long term strategies; and
- (e) To provide information to facilitate the Authority's reporting and accountability to stakeholders.

2.3 Organisational Set Up

The organisational structure of the Authority has three operating departments:

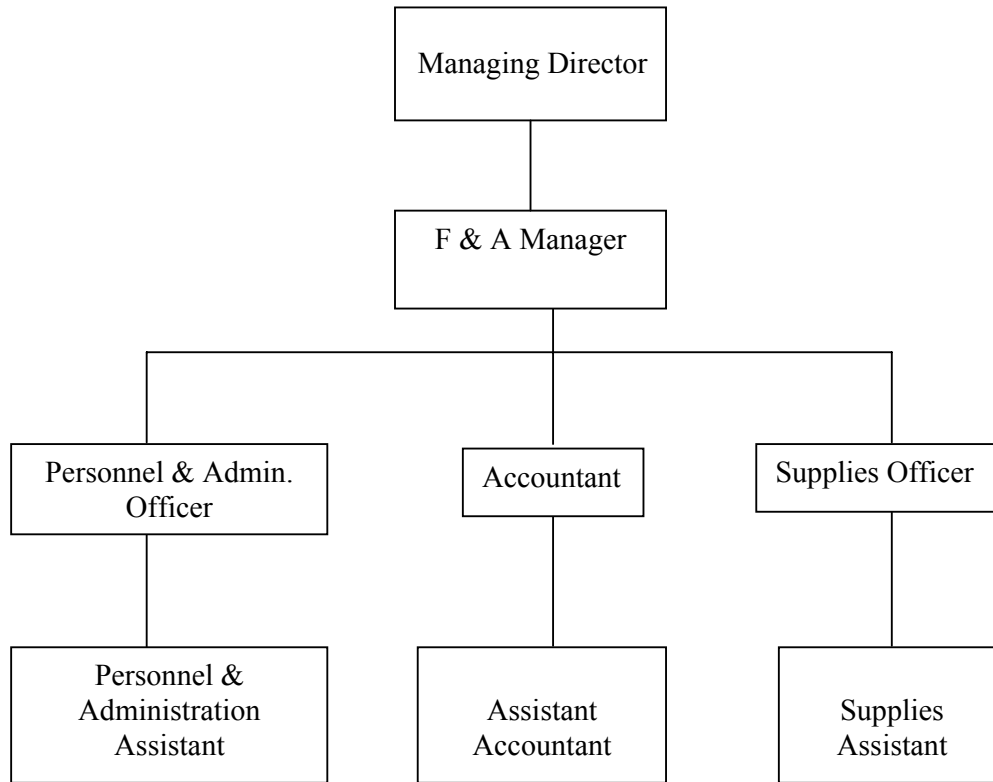
- The Technical Department
- The Commercial Department
- The Finance and Administration Department.

The following diagram shows an extract of the Finance and Administration Department only but full details of all the departments are given in Appendix "A".

The Finance Department is headed by the Finance and Administration Manager, who reports to the Managing Director. He is supported by an Accountant, Personnel and Administration Officer and a Supplies Officer.

The Finance and Administration Department provides the Authority's funds management through Treasury Management, Balance Sheet Management, and Risk Management.

The structure of the Finance and Administration Department is illustrated below:



2.4 Main Features of the Accounting System

The main features of the accounting systems are:

- The Accounting Procedures outlining basic records and books of account,
- Budgetary Control,
- Management Information Systems and;
- Computer System.

The four features listed above will be discussed individually under different sections in this manual.

CHAPTER IV

3.0 THE AUTHORITY'S ACCOUNTING PRINCIPLES

3.1 It is essential that the financial statements of all organisations should include a statement of the main accounting policies in accordance with acceptable guidelines.

The International Accounting Standards require organisations to set and disclose accounting policies used in the preparation of financial statements. This part describes the main accounting policies adopted by the Authority in accounting for income, expenditure, assets and liabilities.

3.2 Fundamental Accounting Principles

3.2.1 It is the responsibility of the Finance and Administration Manager:

- To develop, amend and recommend to the Managing Director accounting principles, policies and procedures to be used by the Authority.
- To ensure that the Authority's accounting policies and principles are observed by all accounting staff.
- To continuously scrutinise all book of accounts and abstracts so as to ensure that all accounting instructions in force are observed; no portion of the system at any time is allowed to fall behind; and abstract transcripts and other records are clean and neat.

3.2.2 It is the responsibility of the Managing Director as the Accounting Officer of the Authority to:

- To issue instructions to the Finance and Administration Manager for the compilation and management of the accounts and the custody and safety of the Authority's money and properties provided that the instructions are not inconsistent with the Public Finance Act No. 6. of 2001 or any regulations or instructions issued under it.
- Specify for the Authority the basis of accounting to be adopted and the classification, system to be used therein and ensure that a proper system of account is established.

3.2.3 In pursuant to the Tanzania Financial Accounting Standards and the International Financial Reporting Standards, the Authority is required to disclose in the annual financial statements the following:

“Fundamental accounting principles which are generally accepted and observed in recording and reporting accounting information and particularly income determination, expenses recognition and determination of amounts at which material items should be disclosed in the Balance Sheet”.

The following are the generally accepted accounting principles:

- (i) **Going Concern Concept**
The life of the Authority is considered unlimited unless/until there is concrete evidence that it will end at some approximately determinable future time.
- (ii) **Consistency Concept**
Accounting policies should be applied consistently to all the Authority's transactions:
 - During the accounting period; and
 - From period to period
- (iii) **Accruals Concept**
The effects of transactions and other events are recognised and accounted for as they are earned and incurred respectively, and not as money is received or paid, and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
- (iv) **Matching Concept**
Revenues should be matched with the expenses that were responsible for their generation in the period concerned. At the end of a period, accrued but unrecorded revenues and expenses are recognised by means of adjusting entries.
- (v) **Substance Over Form**
The substance over form principle must be considered in cases where the legal form of a transaction does not mirror its economic substance. Accounting should always reflect economic substance over its legal form.
- (vi) **Relevance**
Information is relevant if it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.
- (vii) **Materiality**
Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- (viii) **Entity Concept**
Each organisation for which we account is an independent entity, separate from its owner's, managers, customers, creditors, and all other persons and entities with which it deals.
- (ix) **Cost Concept**
Assets are recorded and maintained in the accounting records at their historical cost basis. This is the amount of cash or cash equivalent paid or fair value of the other consideration given to acquire the asset.
- (x) **Time Period Concept**
The activities of an entity are capable of being identified with particular calendar accounting periods

3.3 Accounting Policies of the Authority

The financial statements of the Authority shall be prepared under the historic cost convention as modified to include the valuation of fixed assets and, where material, stocks at current prices. Accounting policies are analysed below and they cover accounting for revenues, expenditure, depreciation, foreign currency transactions, bad debts provisions and stocks.

(i) Accounting for revenues and expenses

Revenues are recognised at the time they accrue and not at the time they are received. Similarly expenses are incurred at the time they accrue and not at the time they are paid.

(ii) Disbursement

Government disbursements and other grants to the Authority are recognised as part of the revenue of the financial period to which they relate.

(iii) Fixed Assets

Fixed Assets shall be stated in the balance sheet at cost or revaluation net of depreciation.

Direct expenditure by the authority on the acquisition, creation, or enhancement of fixed assets shall be capitalised. Expenditure on the acquisition of a tangible asset is capitalised and classified as a fixed asset, provided it yields benefits to the Authority and provides its services for a period of more than one year.

(iv) Depreciation

Depreciation shall be calculated on straight line basis so as to write off the cost or revaluation over the economic useful life of the asset.

The rates that shall consistently be applied on respective categories of fixed assets are:

Name of Asset	Number of Years	Rate of Depreciation %
Buildings and Lease Hold	40	2.5
Plant and Machinery (Installed)	8	12.5
Mobile Machinery and Equipment	5	20
Furniture and Fittings	5	20
Workshop Equipment and Tools	4	25
Water Supply Pipes and Pipes Fittings	20	5
Water Boreholes	20	5
Motor Vehicles and Motor Cycles	4	25
Laboratory Equipment	4	25
Sewerage Drainage Pipes	20	5
Computers & Accessories	3	33.3
Electric Installations	20	5
Office Equipments	5	20
Fire Arms	10	10

(v) **Investments**

Investments shall be stated at cost, but shall be written down to their realisable value in case there is a permanent diminution in their value. Income from investments shall be included in the accounts when amounts are received or accrued.

(vi) **Expenses**

All expenses including those on research shall be written off in the year in which they are incurred.

The cost of supplies and services is accrued and accounted for in the period during which they are consumed. The unconsumed supplies or services are taken as prepaid items and presented as current assets.

(vii) **Provision for Bad and Doubtful Debts**

Receivables outstanding for more than three years shall be provided for as bad and doubtful debts chargeable against the accumulated bad and doubtful debts account.

(viii) **Income**

Income shall be accounted for in the period it relates. Income received in advance, if any, shall be deferred until the relevant period.

3.4 Accounting Year

The financial accounting year for the Authority will be twelve continuous months, from 1st July to 30th June.

CHAPTER IV

4.0 THE AUTHORITY'S ACCOUNTING DOCUMENTATION

4.1 There are many accounting documents depending on the nature of the business being carried out. Described below are examples of the Authority's basic accounting principles and documentation mostly used in the accounting, stores, procurement and control:

4.2 Basic Records and Books of Account

Each individual transaction will be processed through a double entry accounting system. Transactions will have to be supported by supporting source documents. The relevant details from the source documents will first be recorded in the respective books of prime entry – such as day books, registers and analysis records which record daily transactions in details. Entries in the day books will be made in chronological order.

4.3 Posting From Books of Original Entry

Posting is the process of transferring information from the Journal Books and Journal Vouchers to the relevant accounts in the subsidiary ledgers and general ledger.

4.4 Double Entry System

For every debit entry there must be a corresponding credit entry of the same amount. The following rules will serve as a guide:

- Asset accounts are increased by debit entries and are decreased by credit entries.
- Liability accounts are increased by credit entries and decreased by debit entries.
- Owner's equity accounts are increased by credit entries and decreased by debit entries.
- Revenue accounts are increased by credit entries and decreased by debit entries.
- Expenses are increased by debit entries and decreased by credit entries

4.5 Documentations

(a) Invoice

An invoice is a billing document on which a supplier shows details of goods sold/services rendered, the quantity, price, amount, terms of trade, evidence of delivery and reference of local purchase order (LPO) and name, signature, position and official stamp of the person raising the invoice.

(b) Pro-forma Invoice

A pro-forma invoice is a quotation document of which a supplier shows details of goods to be sold/services to be rendered, indicating the quantity, price, amount, terms of trade and name, signature, position and official stamp of the person raising the pro-forma invoice.

- (c) **Receipt**
A receipt is a written acknowledgement of having received cash/cheque by the receiver from the payer. It consists of the name and address of the receiving organisation, receipt number and date, payee's full address, the amount of payment in words, the reasons for the payment, means of payment, the name and signature of the receiver and the official stamp of the organization receiving the payment.
- (d) **Cheque**
A cheque is a bill of exchange that calls upon a bank to make payment to a third party.
- (e) **Payment Voucher**
A payment voucher is a document authorising payment of cash/cheque from the organisation. It contains payment voucher number and date, cheque number, payee's full address, particulars of payment, amount of payment in figures and words, account code for debiting purposes, names and signature of authorising persons and official stamp of the organisation.
- (f) **Bank Statement**
Bank statement is a document issued by the bank showing a customer's full address, account number and record of the beginning balance, deposits, drawings and ending balance with the bank.
- (g) **Bank Balance**
A bank balance is a bank's document issued by the bank to the customer showing the amount of money remaining in a customer's account at a given date.
- (h) **Bank Debit Note**
Bank debit note is a bank document for notifying a customer of a reduction in the customer's bank account for whatever reasons.
- (i) **Bank Credit Note**
Bank credit note is a bank document notifying a customer of an increase in his/her bank account for whatever reasons.
- (j) **Bank Pay-in-Slip**
This is a bank document used by a customer of a bank to deposit cash and cheques in his/her bank account. When properly completed, the document should consist of the name of the bank, the name of the bank branch, date, account number, name of account holder, denomination of currency deposited, cheque drawer's name, number and amount of the cheque being deposited.
- (k) **Credit Note**
A credit note is a supplier's business document, the purpose of which is to initiate a reduction in a buyer's account (amount owing to the supplier) due to goods returned by the buyer to the seller. The effect is usually a reduction of an invoice amount previously tendered against goods supplied.
- (l) **Debit Note**
A debit note is a customer's business document, that explains to a supplier on credit the reasons for a reduction in the customer's accounts payable. The debit note is sent along with the returned goods to the supplier and is

used to make entries in the Goods Returns Outwards Book. The effect is usually a reduction of an invoice previously sent by the supplier to the customer due to a number of factors, such as, damaged goods, under delivery etc.

(m) Salary Slip

A salary slip is an employer's document explaining to an employee his/her gross salary, increases in salary, decreases in salary and net salary payable after effecting statutory and other applicable deductions.

(n) Payroll

A payroll is a record showing the wages and salaries earned by employees for a certain period, and the various deductions arising from it, such as, income tax, NSSF, PPF, insurance premium, outstanding imprest etc.

(o) Petty Cash Voucher

A petty cash voucher is an accounts document authorising payment of a small amount of money kept in the cash office for the convenience of paying cash for small expenditures.

(p) Dishonoured Cheque

Dishonoured cheque is a cheque which was not paid by the issuer's bank at the time of presentation. There are various reasons for dishonouring a cheque including the unavailability of sufficient funds in the bank account to cover the amount of the cheque.

(q) Stale Cheque

A stale cheque is a cheque issued but not presented to the bank six months after issue.

(r) Local Purchase Order

A local purchase order (LPO) is a business document prepared by the Supplies Officer detailing all pertinent information about an agreement to purchase goods or services on credit terms. (Details are given in the Procurement and Stores Regulations).

(s) Goods Received Note (GRN)

A goods received note is a business document prepared by the Receiving Storekeeper detailing all pertinent information in respect of goods received by the Authority. (Details are given in Stores Manual).

(t) Purchase Requisition

A purchase requisition is a business document requesting the Supplies Section to order certain goods or services in accordance with the information and instructions recorded on the document. Only key personnel, such as department/sectional heads, are usually authorised to issue purchase requisition.

(u) Delivery Note

A delivery note is a business document which confirms the transfer of possession of goods from the supplier to the buyer. The delivery note normally accompanies the goods which have been sold and is counter-signed by the receiver of such goods.

4.6 Books of Account

4.6.1 The Journal

- (a) A journal is a book where accounting transactions are recorded chronologically according to the order of dates, with adequate explanation. The process of recording accounting transactions in a journal is termed journalising.
- (b) The advantages gained for maintaining journal books are:
 - Provision of chronological record of accounting transactions.
 - Shows the accounts and amounts to be debited and credited.
 - Provides record of explanations about accounting transactions
 - Provides a link between the original documents used for journalising and the ledger.
- (c) The basis for journalising are written evidence known as original documents. These original documents must be examined for relevance, errors and accuracy of calculations, code, extensions, and accounts to be debited and credited.
- (d) For the purpose of subdividing the work and facilitating more than one person to carry out the recordings of the Authority's transactions, the Authority shall maintain the following journal books:
 - Cash Receipts Book for recording cash collections, cash sales and subventions received.
 - Cash Payments Book for recording disbursements by cheque.
 - Purchases Journal for recording credit purchase.
 - Purchases Return Journal for recording goods returned to suppliers
 - General Journal for recording assorted items
 - Petty Cash Book for recording payments in cash

In order that sufficient details of the transactions may be kept, the Authority shall operate journal books with analysis columns

The columns of the General Journal shall have the following particulars:

- (i) Date, month and year of the transaction.
- (ii) Particulars column for recording the accounts name to be debited and credited and a brief explanation.
- (iii) Folio column for recording related account codes
- (iv) Debit column for recording amounts to be debited
- (v) Credit column for recording amounts to be credited.

4.6.2 Journal Voucher

- (a) A journal voucher is a source document for posting into the General Ledger the following information
 - Monthly totals of original books of accounts
 - Closing entries at the end of the financial year

- Correction of errors
- Transfers between accounts
- Adjustments in the accounts
- Purchases and disposal of fixed assets
- Entries for opening new books of accounts

(b) The Journal Voucher shall contain the following information:

- Journal Voucher Number
- Month
- Name of accounts to be debited and credited
- Identification code of accounts
- Debit Amount
- Credit Amount
- Total amounts of debit and credit
- Narration
- The person raising the Journal Voucher (JV)
- The person authorizing the JV
- The person posting the JV into the General Ledger.

(c) The journal Voucher shall be completed as follows:

- The Journal Voucher number and month shall be completed with the serial and month for which the JV relates.
- The account name shall be completed with the names of the accounts to be debited and credited.
- The code column shall be completed with the identification code found in the Authority's chart of Accounts.
- The debit and credit columns shall be filled with the amount being debited or credited respectively to the corresponding accounts.
- The debit and credit columns shall be totalled to make sure that the amounts are equal.
- The narration space shall be completed with the reasons for raising the JV specifying the Books of Accounts involved and the month being journalised.
- Names and signatures of officials who prepared, authorised and posted the Journal Voucher.

4.6.3 Ledger

A ledger is a book of accounts containing the Authority's accounts. An account is a page of a ledger on which is recorded accounting transactions. It contains the following information:

- Account Name
- Account Number
- Date
- Explanation
- Folio

- Debit Amount
- Credit Amount
- Balance Amount

4.6.4 The General Ledger

The General Ledger is a book containing all the Control Accounts of the Authority such as:

- Fixed and Current Assets Accounts
- Owners' Equity Accounts
- Long-term and Current Liabilities Accounts
- Revenue Accounts
- Expenses Accounts

The source of data of a general ledger control account is indicated by the reference number of the books of account entry in the folio column of the control account.

4.6.5 Subsidiary Ledger

A subsidiary Ledger is a book of accounts containing detailed record of one of the general ledger control accounts. The importance of the subsidiary ledger is to subdivide work and keep detailed information thus facilitating more than one employee to record the Authority's transactions in the subsidiary ledgers.

The sum of the balance in each of the accounts in a subsidiary ledger should agree with the balance in the control account of the General Ledger.

Examples of Ledger Accounts and their subsidiary accounts to be kept by the Authority are:

- (a) **Cash Book**
 - Cash Receipts Book
 - Cash Payments Book
 - Petty Cash Book
- (b) **Staff Imprest Ledger**
 - Safari Imprests
 - Imprests for Purchases
- (c) **Debtors Ledger**
 - Debtors on Water Supply
 - Debtors on Sewerage
 - Others
- (d) **Creditors Ledger**
 - Water Chemicals
 - Materials
 - Spare Parts
 - Others

- (e) Stocks and Stores Ledger**
 - Stocks & Stores
 - Pipes & Fittings
 - Electrical Fittings
 - Spare Parts
 - Chemicals
 - Oil, Fuel and Lubricants
 - Stationery
 - Other Consumables
 - Computers and other Accessories
 - Building Materials

- (f) Fixed Assets Ledger**
 - Buildings and Leasehold
 - Plant & Machinery (Installed)
 - Mobile Machinery & Equipment
 - Furniture & Fittings
 - Workshop Equipment & Tools
 - Water Supply Pipes and Pipes Fittings
 - Water Boreholes
 - Motor Vehicles and Motor Cycles
 - Laboratory Equipment
 - Sewerage Drainage Pipes
 - Computers
 - Computer Accessories
 - Electric Installations
 - Office Equipments
 - Fire Arms

- (g) Payroll Ledger**
 - Managing Director's Office
 - Finance & Administration Department
 - Technical Department
 - Commercial Department

- (h) Project Ledger**
 - Water Sources
 - Water Supply
 - Sewerage Installations

- (i) Sales Ledger**
 - Income from Water Supply
 - Income from Sewerage Services
 - Sales Returns Day Book

- (j) Purchases Ledger**
 - Purchase of Water Chemicals
 - Purchase of Materials
 - Purchase of Spare Parts
 - Purchase of Consumables
 - Purchase Returns Day Book

(k) Operating Expenses Ledger**(i) Administration Expenses**

- Land Rent and Rates
- Telephone, Postage, E-mail and Hand Sets
- Insurance Services
- General Office Expenses
- Fumigation Services
- Transport and Travelling on Duty
- Computer Expenses
- Uniforms
- Electricity Office
- Workers Council Meetings
- Management Meetings
- Miscellaneous Expenses
- Upkeep of Mwenge Round About
- Advertisement
- Newspapers and Periodicals
- Annual Water Experts Conference
- Maji Week
- May Day
- Subscription / Professional Fees
- Entertainment Expenses
- Other Donations
- Function All Workers
- Outfit Allowance
- Compensation

(ii) Personnel Expenses Ledger

- Personnel Emoluments
- Wages (Casual Labourers)
- Overtime / Lunch Allowance
- NSSF / Employers' Contributions
- Travelling on Leave
- Payroll Levy / Penalty
- Medical Charges
- House Allowance
- Hardship Allowance
- Responsibility Allowance
- Acting Allowance
- Fuel and Transport Allowance
- Extra Duty Allowance
- Incentive Scheme
- Burial Expenses
- Training Expense
- Gratuity

(iii) Financial Expenses Ledger

- Bank Interest
- Bank Charges
- Interest on Loans from Lenders other than the Banks

- (iv) Board of Directors Emoluments
- (v) Board Meeting Expenses
- (vi) Audit Fees
- (vii) Depreciation (To be supported by Depreciation Schedules of each type of Fixed Assets)

The list of possible ledger books to be maintained by the Authority is not exhaustive and can be expanded as the need arises.

CHAPTER VI

5.0 THE AUTHORITY'S CHARTS OF ACCOUNTS

The Chart of Accounts is a list of all the accounts created within the accounting system, classified relative to the nature of each account within the financial statements to which it relates.

The accounts are generally numbered or coded, so that the numbers may be used instead of account titles for computer processing and as a time saving measure in recording transactions.

The available types of codes for use are letter codes, numerical codes, decimal codes, and alphanumeric codes.

For the Authority, the decimal coding has been chosen because it provides unlimited subdivisions of a major classification by using digits to the right of the decimal point.

Accounting Codes

(a) Introduction

This section describes the codes which are to be used in the accounting system for collecting, recording, summarising and classifying accounting information for the Authority.

The accounting codes are also used for budgeting and reporting purposes.

(b) Objectives

This coding system has been designed to accumulate financial data according to the account headings, i.e. whether the items are expense, revenue, assets or liabilities items respectively.

Accounting headings have been set out in groups to provide the analysis of the transactions and balances for compiling accounting statements and for budgeting purposes.

Deviations from the standard code will not be permitted and if an amendment or extension to a code is desired, a request should be submitted to the Managing Director through the Finance and Administration Manager for such amendment.

(c) Features of the Accounting Codes

The main features of the account codes are that they:

- Reflect the administrative structure of the Authority, thereby providing for the allocation of financial resources to specific responsible managers and accounts for the use of responsible manager's resources.
- Follow a logical pattern, thus making them relatively simple to understand and operate.
- Allow scope for the introduction of more sophisticated forms of accounting and reporting, and future refinement and development.

- Facilitate the integration of the Authority's recurrent and development activities, hence providing a clearer view of both existing and future resource utilization.
- Enable direct comparisons of the Authority's budgets, commitments and actual transactions.
- Facilitate the production of consistent financial information at differing levels of aggregation and support, at the consolidation level, in line with the Authority's high level accountabilities.

(d) Coding of Documents:

All staff authorising and issuing accounting records are required to ensure that the correct code is entered against each transaction. In general, the main responsibility for coding will fall upon budget holders. All finance forms will be coded appropriately, by inserting authorised codes on spaces provided. The forms are designed to provide guidance for inserting the appropriate required codes.

(e) Description of accounts codes:

The description of any account is based on whether the item is an asset, a liability, an income or an expense and its responsibility centre i.e. a department.

The account codes are set in groups in order to provide the analysis of assets, liabilities, revenues and expenses required for compiling financial statements and for budgeting purposes. A full list of all the account codes is attached as Appendix "B".

CHAPTER VII

6.0 THE AUTHORITY'S COMPUTERIZED SYSTEM

6.1 The accounting system of the Authority is 35% computerised. The system modules involved are shown below against their stage of computerisation:

S/N	Type of module	Purpose of the System	Stage of Computerisation
1	General Ledger	For maintaining all accounts and posting transaction entries into the system (Refer Chart of Accounts).	
2	Cash Management	For maintaining cash and bank accounts, reconciliation, and bank charges.	
3	Accounts Receivable	For maintaining customers (debtor) and staff debts information and processing sales/services income and other receipts.	
4	Accounts Payable	For maintaining creditors information and processing payments	
5	Procurement System	For trade expenses, receipts of goods and acquisition of fixed assets. For entering and modifying all order transactions, including a contract order specifying amount limit for the order.	
6	Asset Management	For maintaining assets information and depreciation thereon.	
7	Budget Manager	For entering, adjusting, monitoring and follow up of the budget against actual outcome.	
8	Inventory Management	For maintaining stocks information which include receipts and issue of stores to the user departments and customers and transfers between stores	
9	Payroll System	For staff salaries, loans, advances and imprests as well as payroll deductions management	
10	Human Resources Management	For Human Resources Management, Maintains Employee records for all employees.	
11	Asset Maintenance	For fleet and estate management	
12	Order Entry	For managing Economic Order Quantity System	

6.2 Every individual transaction is processed through a double entry accounting system.

Every transaction that takes place must be recorded on a source document. Source documents include sales invoices, suppliers' invoices, cash receipts, petty cash vouchers, agreement, letters, memos, and other similar documents.

Transaction data is keyed in from the source documents into the relevant modules and the accounts and reports are updated after validation and authorisation of the

transactions. The integrated infrastructure of the accounting software enables the account records to be maintained in a single ledger.

- 6.3 The Finance and Administration Manager is responsible for ensuring that all the accounting data is posted promptly and correctly in order to keep all accounting records up to date all the time. The reasons being:
- To minimise the risk of errors
 - To establish a much easier and faster system of discovering and correcting errors
 - To reduce the likelihood of loss or theft
 - To provide an audit trail of all transactions and entries onto the system.
- 6.4 During the implementation of computerisation phases, both the manual and electronic systems shall be run in parallel until the electronic system is demonstrably accurate and effective.
- 6.5 The Authority's management information shall flow from the basic recording system described above. In addition, certain non-accounting information such as price lists, human capital, etc, shall be obtained from other sources including the Commercial and Technical Departments of the Authority

6.6 Accountability for the System

6.6.1 The System Administrator

The system security requires that the System Administrator:

- (a) set out parameters within which each authorised user can work. This determines what the users are allowed to do and the data they are allowed to access on the system.
- (b) ensure that the necessary user names, passwords, and appropriate access rights are set up into the system to allow data input and processing function to continue smoothly. In the case of absence from the office the change over of the duties should be done in a manner consistent with the principle of internal control.
- (c) ensure that the officials who are permitted to authorise payments have their user names, specimen signatures, the types of transactions that each person can authorise, the limit, and the range of the Chart of Account Codes to which they are responsible clearly stated therein.
- (d) place a limit on the period and time a user is able to log into the system's database.
- (e) never enter or approve any transactions on the system regardless of who issues instructions for him to do so, as this represents a serious breakdown in the internal control in the accounting function. Should he do so, he should be subject to immediate disciplinary action.
- (f) will be able to access the system in order to view the budget and management information report but cannot make changes on the

reports or other information on the system. He can, however, change his passwords.

- (g) ensure that the database is backed up on daily basis and stored securely in on offsite location.

6.6.2 Executives

The Managing Director and Heads of Departments will be able to access the system in order to view the budget and management information report but cannot make changes on the reports or other information on the system. They can, however, change their passwords.

6.6.3 Managers

The managers are the Certifying Officers required to approve all transactions in the system, but must ensure that all the entries are in compliance with the Public Finance Act no. 6 of 2001, the Authority's Financial Regulation and with instructions contained in this manual.

Managers are not responsible for system administration, but are allowed to override certain financial policies like approving sales to a customer who has exceeded his credit limit.

6.6.4 Accounting staff

The accounting staff are not allowed by the system to approve transactions. It is a disciplinary offence for an accounting staff to approve a transaction irrespective of who has issued such instruction as this is a serious breach of internal control in the system. The accounting staff are expected to:

- Enter all transactions promptly and correctly.
- Enter all transactions on daily basis, balanced daily and no backlog should be allowed to build up.
- Prepare the bank reconciliations of all the Authority accounts at every month end or fortnightly if the volume of the transactions is very large.
- Ensure that computers and other system hardware are properly secured.
- Ensure that computer cleaning and maintenance schedules are strictly adhered to and that all faults in the equipment are reported immediately they are detected to the System Administrator.

- 6.6.5** Every employee of the Authority involved in the collection, receipt, custody issue or payment of public funds must obey the procedures provided in this manual irrespective of the position they are holding.

6.6.6 Security

(a) System Security:

Following are security features of the Authority's computer system:

- Users are identified by the system through their user names and passwords as well as their specified access rights or security permissions.
- Each user's security permissions are assigned for each application, or for each menu command basis. The security permissions can allow or prevent users access to applications or commands.
- In order to open an application, each user must first log in through the system manager. This ensures that the user has a valid user name and password, and is using the assigned security permissions.
- During logging the user selects the server where he will be working and enters his user name and password.
- Users should not share passwords with anyone within or outside the Authority. Users who do so will be held personally liable for any loss incurred as a result of password sharing.
- The verification of documents can be done manually or electronically. Security arrangements ensure that the work of one staff member is counter checked by another before the payment process comes to an end. Any transaction initiated by a head of department is checked and input by another user for correctness, completeness and appropriate signatures.
- Data stored on the hard disk is backed up on daily basis, a copy of which is stored in a secure place offsite in another building to avoid loss of data caused by disaster. The operator back up procedures should be run every end of the month and every year end. A copy should be stored by the System Administrator on site for reference purposes.
- Usernames and Passwords allow or restrict the access of a user to defined tasks and /or account code to which user is, or is not, directly responsible.
- Usernames and Passwords place a limit on the period and time a user is able to log into the system's database.
- Usernames and Passwords provide an audit trail showing who entered the system and authorised transactions and when. This enables complete accountability for all transactions and data stored on the accounting system.

(b) Physical Security

- The server room should always be locked and only designated staff should have keys for the room.

- Daily and weekly backup tapes/cartilages should be stored offsite, and the originals should be stored onsite in a fireproof safe.
- To avoid hazards due to power fluctuations, Un-interruptible Power Supplies (UPS) should be used. All workstations should be connected with an UPS

6.6.6 Segregation of Duties

Segregation of duties is a primary internal control measure intended to prevent or minimise the risk of errors or irregularities, identify problems, and ensure that corrective action is taken. This is done by ensuring that no single individual is left to control over all stages of a transaction.

The duty of every user that logs on is divided up in the system, and their associated level of security is reflected by their user role. For example, if a user has the role of entering data into the system, his access rights will be limited to that activity. The data entry clerk will not have the right to perform any other activity such as approval, authorisation or posting within the system.

Other users, with different security levels, will perform other duties, such as approval, authorisation, posting or printing of documents. Again, their approval and authorisation limits will be set in the system.

CHAPTER VIII

7.0 ACCOUNTING FOR THE AUTHORITY'S REVENUE

7.1 A separate account will have to be opened in the water debtors ledger and sewerage service debtors ledger for each customer to whom water and sewerage services have been sold on credit and each customer account will be debited with the amount of each service provided. At the end of the month, the water credit sales and sewerage service credit sales would be added, and the totals thus ascertained would be credited to the water sales account and sewerage service account in the general ledger.

7.2 Water connections and reconnections are carried out on cash payment basis by customers. The cash account will therefore, be debited with the value of such charges and the water connection/reconnection accounts would be credited with the relevant revenue. Regarding cash received for meter deposit, the cash account would be debited and meter deposit account credited with the amount of the deposit.

When the Water Authority sells water on credit to a customer, the following entry shall be recorded:

Dr. The Water Customer Account
Cr. Water Sales/Income account

On payment of the water bill by the customer, the following entry shall be recorded:

Dr. Cash/Bank Account
Cr. Water Customer Account.

When the Water Authority provides sewerage service on credit to a customer, the following entry shall be recorded:

Dr. Sewerage Service Customer Account
Cr. Sewerage Service Income Account

When the customer settles the sewerage service bill, the following entry shall be recorded:

Dr. Cash/Bank Account
Cr. Sewerage Service Customer Account.

When the Water Authority offers sewerage service to customers on cash payment basis, the following entry shall be recorded:

Dr. The Cash/Bank Account
Cr. Sewerage Service Income Account

Dr. Bank/Cash Account
Cr. Government Grants

Dr. Bank/Cash Account
Cr. Donation Income

Dr. Bank/Cash Account
Cr. Interest/Dividend Income

CHAPTER IX

8.0 ACCOUNTING FOR AUTHORITY'S EXPENDITURES

8.1 The purpose of this chapter is to describe the procedures to be followed and documentation to be used when accounting for recurrent expenditures of the Authority. As for all financial matters the Finance and Administration Manager will be responsible for the processing, recording and prompt paying of all the bills. The procedures for accounting for the Authority's expenditure are described under the following headings:

- Direct Expenditure
- Administrative expenditure
- Personnel Expenses

8.2 Direct Expenditure

These are expenditure which are directly incurred in the production and distribution of water and in the provision of sewerage services to customers. These shall either be incurred and cash paid or on accrual basis and the following entries shall be made:

DR – Direct Expenditure A/C (subgroup 60.1, 60.2, 60.3. (e.g. water production, water distribution etc).

CR – Cash/Bank or payable in case of accruals.

8.3 Administrative Expenses

These expenses relate to administration such as salaries and wages.

DR – Various Expenses (sub group 60.5)

CR – Cash/Bank or payable in case of accruals.

8.4 Personnel Expenses

These are expenses which relate to personnel such as salaries and wages. These shall either be incurred on cash or accrual basis. Procedures for accounting for personnel expenses are detailed in section 10 of this manual.

CHAPTER X

9.0 ACCOUNTING FOR ACCRUALS AND PREPAYMENTS

9.1 Purpose

This CHAPTER describes the system and procedures to be followed and documentation to be used in accounting for **accruals** at the end of each accounting year.

The **accrual concept**, states that “income and expenditure are recognised and accounted for as they are earned and incurred respectively and not as money is received or paid”. In principle, expenditure incurred and costs recognised before the relevant payments have been made shall be treated as liabilities and payments made before the relevant expenditures have been incurred or costs have been recognised shall be treated as assets.

In an accounting period there are always items of income and expenditure relating to that period for which invoices are not issued to customers or received from suppliers during the year. There are also payments, which are normally paid in advance such as insurance premiums and rental. These are all examples of items requiring the application of the accrual concept as the service providers submit invoices in arrears.

9.2 Responsibility

The Finance and Administration Manager is responsible for determining the amount of accruals and prepayments at year end and raising journal vouchers and ensuring that they are properly posted in the ledger.

9.3 Accruals

Accruals are of two classifications; those related to expenditure i.e. accruals of expenditure and pre-payments; and those relating to income i.e. accruals of income, deposits and receipts in advance.

9.4 Accruals of expenditure

Accruals of expenditure cover all expenses that have not been recorded in the accounting records, e.g. electricity, telephones, etc. This involves estimating or calculating amounts for which payment has not yet been made so that they are charged against the results of the accounting period in which they are incurred rather than when payment is actually made.

9.5 Calculation

At the end of each accounting period, the Finance and Administration Manager examines the payments made during the period for the main expense headings including suppliers' invoices not yet processed. From this analysis, the expenses for which payments have not been made or for which full charge have not been received are identified. The amount of the accrual is calculated using one of the following basis:

- The amount (or proportion thereof) of the un-booked actual invoices of the period, if these are available.
- The estimated amount based on previous expenditure allowing for seasonal factors and growth trend, where applicable.

- The estimated amount based on the expenditure budget for the period concerned.
- An anticipated amount based on quotations for goods received and services received but not paid for.
- A brief explanation showing how the figures were arrived at should be kept for production for verification by both the internal and external auditors. These notes should be included in the annual accounts as notes to the accounts.

9.6 Preparation of Journal Vouchers and Posting to the Ledger

The journal vouchers and update of the general ledger will be as follows:

Dr Expense Account
Cr Accrued Expenditure Account

9.7 Prepayments

This section describes the system and procedures to be followed and documentation to be used in calculating and accounting for **prepayments** at the end of each accounting year.

The Finance and Administration Manager is responsible for determining the amount of the Authority's prepayments and raising journal vouchers for prepayments and ensuring that they are properly posted in the ledger.

Prepayments result from expenses which are normally paid in advance like insurance premiums. It is necessary to make adjustments for these items in the accounts to ensure that expenditure is accounted for in the period to which it relates. These adjustments are made by means of prepayment accounts.

Payments to suppliers based on pro-forma invoices are initially booked in the prepayment accounts if goods are not collected immediately, i.e. if the goods have to be manufactured.

A schedule is maintained of all expenses which have been paid in advance and the period to which they relate. Details are entered on the schedule on a monthly basis as payments occur showing how the prepaid expenses are to be allocated in future periods.

The amount to be adjusted in the periodic accounts is obtained by summing up all the individual prepayments. For example, at the end of every year, all amounts in respect of subsequent years constitute prepaid expenses.

9.8 Preparation of Journal Vouchers and Posting to the Ledger.

On the first working day of the following accounting period for the Authority mentioned in 9.7 above reversed as follows:

Dr Expense Account
Cr Prepayment Account

9.9 Accrued Income

The same procedures are undertaken for accrued income earned but not billed such as interest and /or other investment income.

9.10 Calculation

At the end of each accounting period, the Finance and Administration Manager will examine the receipts for the period of the main income headings. From the analysis, the income for which receipts have not been made will be identified.

Brief notes showing how the accrued income has been calculated should be maintained for production to both the internal and external auditors.

9.11 Journal Vouchers and Update of the General Ledger

Once the amounts have been ascertained, the following entries will be passed:

Dr. Accrued Income Account

Cr. Income Account

CHAPTER XI

10.0 ACCOUNTING FOR PAYROLL AND STAFF PAYMENTS

This chapter describes the system and procedures to be followed and documentation to be used in recording and analysing the Authority's monthly payroll expenses. Payroll transactions include salaries (including advances), allowances, loans etc.

10.1 General

- (a) All the relevant information and documents required for the preparation of payroll should be sent to the Accounts Section before 10th of each month.
- (b) The Payroll Officer should make sure that all such information and documents are properly authorized by relevant officers before processing them on the payroll.
- (c) The payroll preparation work should commence by not later than the 15th of each month. The payroll cheques should be sent to the bank on 20th of each month for those receiving their salaries through the banks and the pay day of each month is on the 25th of each month.
- (d) All payments of salaries and wages should be made only to persons who are on the authority's establishment and who have letters of appointment.
- (e) Overtime payment shall be made to the employees who have worked beyond the normal working time after obtaining the authorization of the Head of the Department. The Head of Section has also to certify that the employee actually worked the time shown on the Overtime Sheet.
- (f) All payments to casual labourers shall be based on casual labourers list approved by the Head of Department and counter signed by the Head of Section/Unit who supervised the work the casual labourers performed.

10.2 Preparation of the Payroll

- (a) The Finance and Administration Department will receive copies of all official letters affecting the salaries of the employees. The documents concerning the payroll are:
 - Letters of Appointment indicating the post for which the person is appointed, gross pay, employee number, place of work, amount of annual increment etc.
 - Promotion letters.
 - Letters of termination, resignation, retirement, completion of contract.
 - Transfer letters.
 - Advice for stopping payment of salaries.
 - Advice for payment on half-pay for whatever reasons.
 - Approved over-time sheets and other allowances.
 - Statutory deductions e.g. Income Tax, PPF, NSSF etc.

- Letters authorizing recoveries from the employee salaries e.g. loans, imprest.
- (b) When the official letters concerning the payroll reach the Officer responsible for processing salaries, he should place them in a separate file for that month, so that all the changes in the payroll for that month can be incorporated and also facilitate future verification of the payroll. In respect of new appointments, the Payroll Officer should open an Individual Pay Record for the concerned employees which should then be kept in the posting tray. Information on overtime payable will be transcribed at the time of the preparation of the payroll.
 - (c) All the information and documents effecting the payroll should be forwarded to the payroll clerk only after they have been scrutinized and initialled for correctness by the responsible Officer.
 - (d) On the basis of the previous payroll, and of the documents pertaining to salaries for the month kept in a separate file, the Payroll Officer should prepare the payroll on the Authority's Computer Salaries and Wages Sheets.
 - (e) The payroll should be separately prepared for each department and a financial summary for all the departments be compiled.
 - (f) The Accountant concerned should check the payroll sheets with the relevant documents and approve by them initialling the sheets and final summary.
 - (g) The Accountant should also check the Individual Pay Records (IPR) to ensure that the monthly totals of all these cards agree with the final summary sheet figures. In case of differences IPR figures should be checked with individual pay-slip figures.
 - (h) The Accountant concerned should compare the current month's salary figure with the previous month's salary figure and any difference should be reconciled to make sure that the payroll is in order.
 - (i) A payment voucher should be prepared for the net pay as per the summary sheet and the amount should be debited to "Salary Control Account". Simultaneously, from the payroll summary sheet a journal voucher should be passed as follows:

Dr. Basic Salary Account
 Dr. Overtime Allowance Account
 Dr. Any other allowance (to be specified)
 Dr. Contribution to Staff Pension Scheme Account (by Employer)

Cr. P.A.Y.E. Account
 Cr. Personal Tax Account
 Cr. Pension Scheme Account
 Cr. Mid-month Salary Advance Account
 Cr. House Rent Recovery Account
 Cr. Staff Advances Account
 Cr. Salary Control Account

Dr. bank account with unclaimed salaries/wages
 Cr. Salaries/wages account payable as a reverse entry.

- (j) The payment voucher should first be checked by the Expenditure Accountant concerned and thereafter by the Finance and Administration Manager, along with the payroll sheets and the journal voucher, for his/her final approval.
- (k) Cash and Bank Section should prepare two cheques one in favour of the Bank for the amount as per the list of employees who receive their salaries through the bank indicating their net pays against their Bank Accounts, and the other in favour of the cashier for the amount required for disbursement in cash.
- (l) The cheque along with the list of employees should be sent to the Bank not later than 10 days before the last day of the month, with instructions to credit the amounts to the respective accounts of the employees.
- (m) In case of salaries paid in cash, the cashier should draw the amount as per the denominations mentioned in the payroll and the cash should be put in the individual pay packets to be kept in the safe after stapling the individual pay slips. This should be done on the day prior to the date of disbursement of salary. Disbursement of salary should be done 5 days before the last working day of the month.
- (n) Payment of salaries in cash should be made only against signature or thumb impression of the employees after satisfactory proof of identity of the payee. In the case of temporary or casual labourers it should be paid in the presence of the sight incharge for identification.
- (o) In case an employee is sick, the Authority shall give the salary to the person authorised in writing by the sick staff.
- (p) In case the salary is not claimed within 3 days from the date of payment, the amount should be receipted and banked. The original receipt and the list of the staff will be sent to the salary unit and the salary unit in charge will maintain a register for "Unpaid Salaries". He will check the payroll sheet for identification and will enter the name, employee number amount, receipt no. and period of wages in that register for each receipt and keep blank columns for voucher no. and date of payment.
- (q) The amount should be debited to the Unpaid Salaries Account.
- (r) Whenever such salaries are subsequently claimed, the amounts should be paid out by a separate petty cash or payment voucher, with the approval of the Finance and Administration Manager. He should check the details from the register maintained by the Payroll Officer before approving such payment vouchers.
- (s) Monthly outstanding figures should be worked out from the register and checked with the balance of the Ledger Account and any difference should be reconciled.

10.3 Temporary employees

The Authority can hire temporary employees under engagement terms agreed between the Authority and the staff concerned. Temporary staff are of two types:

- (a) Temporary staff employed for a term of between two weeks and six months

- (b) Casual labourers employed for one day and or for a period not exceeding two weeks.

(a) Employment of between two weeks to six months

The contract of employment is open for renewable after every six months. The Personnel and Administration Officer will sign a letter of temporary employment for the concerned staff. A copy of whether will be sent to the Accountant responsible for payroll for setting up the staff member as a vendor in the payroll system.

Each staff is assigned a “vendor reference” enabling the basic and default data to be reused when making payment and for the production of analytical reports showing summary and activity details for individual vendor.

The monthly salary is paid at the end of the month, normally on pay day i.e. on 25th of each month. The temporary staff member is not bound to statutory contribution funds.

The only deduction to be made on the temporary staff by the Authority is the Pay As You Earn (PAYE) and mid-month advance if any.

The temporary staff is paid through a manual payment voucher. After the payment voucher has received the necessary approval, it is passed on to the Payroll Accountant for data entry into the system and for payment processing.

Salary entries will be:

When the salary is due, the following journal entry will be recorded:

Dr. Salaries, Wages and Allowances
Dr. Overtime
Cr. Pay As You Earn (PAYE) Payable
Cr. Salary Advances (if any)
Cr. Development Levy Payable (if any)
Cr. Net Salaries Payable

On settling the salary related liabilities, the following journal entry will be effected:

Dr. PAYE Payable
Dr. Development Levy Payable
Cr. Cash/Bank

On paying the staff, the following journal entry will be recorded:

Dr. Net Salaries Payable
Cr. Cash / Bank Account

(b) Casual workers

Wages usually refer to earnings of lower level employees who work for daily or weekly rate pay.

The Personnel and Administration Section is responsible for authorizing the employment of casual workers at on going statutory rates of pay after

obtaining employment request and after getting consent of the Managing Director.

The User Department / Section / Unit is responsible for time keeping that is keeping track of the time the casual workers work. The Accounts Section is responsible for computing wages due and for making payments to casual workers who are approved to be paid.

To ensure that wages are accrued only for services actually rendered, the hours / days worked by casual employees must be accurately recorded and tallied. Hours / days worked should be accumulated on an Employment Work Card each day.

To record wages earned and paid to casual workers, the following journal entry will be recorded:

Dr. Wages Expenses account with gross pay
Cr. Net Wages Payable Account
Cr. Wages Deductions Account

Dr. Net Wages Payable Account
Cr. Cash / Bank Account

Dr. Wages Deductions Beneficiaries Account
Cr Bank Account

An Employment Work Card (EWC) must be opened for every casual employee and the days by the employee worked should be entered in the card. The actual time worked by the employees must be signed by the supervising officer on daily basis. At the time when wages have to be paid, all Employment Work Cards must be signed by the Manager / Supervisor. A Muster Payroll should be prepared by listing all casual workers in serial order of their Employment Workers Cards.

CHAPTER XII

11.0 ACCOUNTING FOR VAT

- 11.1** Government Ministries, Departments and Agencies (MDAs) are not required to register for Value Added Tax (VAT), and therefore, do not have to charge VAT on their suppliers. However, in accordance with the Public Finance Act No. 6 of 2001, all MDAs are required to pay VAT on all their purchases of goods and services with effect from July 2001.

The Government has put in place an arrangement whereby the VAT paid by the MDAs are subsequently refunded to the vote holders through the Integrated Financial Management System (IFMSs).

11.2 The Practice in AUWSA

The current practice in AUWSA is to seek exemption from paying the tax from the Tanzania Revenue Authority (TRA) rather than paying the tax and then requesting for a refund. The steps followed are as follows:

- (a) AUWSA will obtain proforma invoice from the supplier inclusive of VAT.
- (b) AUWSA will fill in Form TRA – VAT 223 (Application for Exemption) and lodge it with the TRA.
- (c) TRA will issue Form TRA – VAT 224 (Exemption).
- (d) AUWSA will raise Local Purchase Order (LPO) – VAT Exempted, to the supplier. The LPO will be accompanied by the original TRA-VAT 224.

CHAPTER XIII

12.0 ACCOUNTING OF GRANTS AND SUBVENTIONS

12.1 Purpose

The purpose of this chapter is to describe the system and procedures to be followed and documentation to be used in accounting for grants and subventions should the circumstance arise in which the Authority receives them.

12.2 Responsibilities

The Managing Director has the overall responsibility for receiving of the Authority's funds and subventions.

The Finance and Administration Manager is responsible for making proper allocation of funds to user departments, and inclusion in the budgetary review.

The Finance and Administration Manager is responsible for the review on the usage of funds, accountability and reporting to user departments, and inclusion in the budgetary review.

12.3 Description of Procedures

The accounting procedures for grants and subventions are described under the following main heading:

- Receiving of grants and subventions
- Use of grants and subventions

12.4 Receiving Grants and Subventions

Revenue grants are normally received to fund operating activities.

Capital grants are either in the form of tangible fixed assets or funds that are made available to purchase these fixed assets for the Authority. The treatment of capital grants is described below:

The Fixed Assets Account is debited with the cost amount or the market value of the asset and the Grants Received Account is credited with the same amount. The fixed asset is depreciated over its useful economic life while grants received are amortised with the same.

Other grants may be for specific projects. These funds are taken to a special project account and the donor who may also appoint their own auditors. Expenditure relating to the specific project only can be met from these funds.

12.5 Accounting Entries

The following accounting entries are recorded in respect of grants and subventions:

12.5.1 For Subvention / Revenue Grants

To record the receipt of Subvention / Revenue Grants received, the following journal entry will be passed:

Dr. Bank Account

Cr. Subvention /Revenue Grants Account

To record expenditure incurred using the grants, the following journal entry will be passed:

Dr. Specific Expenditure Account
Cr. Bank Account

12.5.2 For Capital Grants

To record receipt of the grants, the following journal entry will be passed:

Dr. Fixed Asset Account
Cr. Capital Grants Received Accounts

To record depreciation of the asset acquired through grants, the following journal entry will be passed:

Dr. Depreciation Expense Account
Cr. Accumulated depreciation Account (name of asset)

To record amortisation of the grant, the following journal entry will be passed:

Dr. Capital Grants Account
Cr. Amortisation Account

CHAPTER XIV

13.0 CASH AND BANK ACCOUNT MANAGEMENT

The purpose of this chapter is to how the Authority should effectively manage and properly record its cash and cash equivalent assets.

13.1 GENERAL CASH MANAGEMENT

Accounting staff must be carefully selected and trained and their duties, responsibilities and authority clearly defined in as far as the cash management responsibility is concerned.

Duties shall be properly separated so that no one person is in complete charge of any business transaction. As far as possible the work of each officer recording cash has to be checked automatically by other employees.

Adequate safety in regard to the Authority's cash management e.g. – cash registers, walled in safe, receiving and paying counters, limited access, insurance cover, police escort during transferring money from and to the bank, locked cages for paymasters and sufficient documentation – all cash transactions must be accounted for in writing.

Cash book balance and bank statement balance must be reconciled during the first week of each month by an employee other than those involved with receiving and disbursing cash and maintaining cash records. A file of typed bank reconciliation statement has to be maintained.

Regular examination of the cash book, petty cash, cash receipts, and cash disbursements by the Internal Auditor/Finance and Administration Manager should be done.

All cheques and other negotiable instruments should be made out to the Managing Director, Arusha Urban Water Supply and Sewerage Authority and not to individual officers.

The Authority's safe should be used solely for keeping the Authority's cash and valuable documents and not for any personal money or possessions.

13.2 RECEIPTS AND PAYMENTS OF CASH AND CHEQUES

The purpose of this section is to describe the procedures to be followed and documentation to be used when accounting for all receipts and payments of cash and cheques within the Authority. The receipts and payment procedures are described under the following headings:

- Receipts: - Cash Receipt Procedures
- Cheque Receipts Procedures
- Payments - Cash Payment Procedures
- Petty Cash Payment Procedures
- Cheque Payment Procedures
- Bank Reconciliation

13.3 RECEIPTS:

13.3.1 Cash Receipts Procedures:

- (a) Receiving of cash shall be separated from the cash disbursement function. The same person should not receive cash and also make payments.
- (b) Responsibility for receiving cash should specifically be assigned to one employee. When it becomes necessary for more than one employee to have access to the same cash at different periods, proper handing over and a reconciliation of cash on hand should be made each time the responsibility is shifted.
- (c) Book-keeping function must be separated from the function of handling cash. Cashiers should not maintain accounting records and should not have access to the records other than those specified in this manual. Comparison of bank deposits with book record of cash shall be made regularly by an employee who is engaged neither in receiving cash nor in the cash recording.
- (d) Receipt of cash should be promptly recorded at the time the cash is received by issuing the Authority's official receipt every time cash is received.
- (e) While waiting to be deposited in the bank, cash should always be kept in a safe in a secure place of storage under dual control of authorised officers.
- (f) Cash receipts should be deposited, intact, (should not be used to pay current expenses) into the bank, on the following working day. Cash should not be allowed to accumulate in the safe. Ensure that the bank paying in slip is stamped by the bank and returned to a person other than the one who prepared the deposit for comparison with the cash receipts book.
- (g) For all cash received, the cashier is to issue to the customer an original copy of official pre-numbered receipts. Duplicate copies of issued receipts to be attached to the list of daily collections and sent to the book-keeper for posting.
- (h) The official cash receipts should show:
 - i) Proper heading of the Authority's identity
 - ii) Receipt number
 - iii) Date
 - iv) The name of the organization or individual from whom the cash is received
 - v) Amount of cash received
 - vi) Reason for the payment
 - vii) Signature of the cashier who received the payment
 - viii) Official stamp of the Authority
- (i) The correct value of revenue stamp must be affixed to the receipt in accordance with the statutory regulations of Tanzania.

13.3.2 Cheque Receipts Procedures

- (a) Cheques received through the mail should be entered in an inward cheque register kept by a person in the Managing Director's office with responsibility of opening mails.
- (b) The person opening the mail should not be a cashier, and should not have access to accounting records or access to the cash fund.
- (c) The cashier should sign for all the cheques received from the person opening the mail. Cheques received by the cashier directly from the mail should be entered by him in the cheque register kept by himself. A list of the amounts received together with the customer's remittance letters to be sent by the cashier to the assistant accountant for posting in the ledgers.
- (f) The Inwards Cheques Register should ruled with the following columns:
 - (i) Date received
 - (ii) Drawer
 - (iii) Cheque Number
 - (iv) Cheque Date
 - (v) Value
 - (vi) Reasons for receipt/LPO
 - (vii) Receipt Number
 - (viii) Date Banked
 - (ix) Remarks
- (g) Procedure for completing the cheque register is as follows:

Columns (i) to (vi) entered on receipt of the cheque

Column (vii) is entered in the cashier's register on receipt of the cheques and in the other registers when the accountant is checking the registers with the cashier's cash statement at the close of a day's business.

Column (viii) is entered on the following day when the register is checked with the bank paying in slip stamped by the bank.
- (h) While waiting to be deposited in the bank, cheques received should always be kept in a safe in a secure place of storage under dual control of authorised officers i.e. the Cashier and the Senior Accountant.
- (i) Cheques receipts should be deposited intact into the bank, on the following working day. Cheques should not be allowed to accumulate in the safe. Ensure that the bank paying in slip properly completed, is stamped by the bank and be returned to a person other than the one who prepared the deposit slip for comparison purposes with the cheque receipts book.
- (j) For all cheques received, the cashier shall issue to the customers an original copy of official pre-numbered receipts. Duplicate copies of

issued receipts shall be attached to the list of cheque collections and sent to the book-keeper for posting.

- (k) Dishonoured cheque must be returned to the customer for repayment preferably by cash/banker's cheque.
- (l) Dishonoured cheque shall be debited back to the debtor's account and credited to the bank account.

13.4 PAYMENTS:

13.4.1 Disbursement of Cash

Cash payments of Tzs of 50,000/= and below will be effected through petty cash transactions controlled in the form of an authorised imprest system.

- (a) Petty cash book shall be kept on an imprest system. It shall be in columnar form with separate columns including those for expense analysis.
- (b) The float amount will be determined/reviewed from time to time by the Finance and Administration Manager on the basis of past experience and actual expenditures. Currently the imprest float is Tzs 750,000/=.
- (c) The Finance and Administration Manager must have a delegated Authority Letter from the Managing Director for setting up the Petty Cash Float Levels.
- (d) The cash shall be replenished at the end of each week/month by an amount equal to the payments made during the week/month. Thus, at any time the petty cash on hand plus the amount of the petty cash payment vouchers for the current week/month should be equal to the imprest.
- (e) The imprest shall be made up each week/month by drawing a cheque on the firm's bank current account. All petty cash payment vouchers must be signed by the Finance and Administration Manager or his appointed staff as authority for payment.
- (f) The cash balance to be counted at the end of each day by the accountant who shall initial and date the balance on finding it correct and is in agreement with the cash composition summary.
- (g) At the end of each month, the columns shall be totalled and cross-balanced and posted to the ledgers, after summarizing the 'sundries' column as appropriate.
- (h) The petty cash fund shall be under the control of a specifically designed employee who shall be held responsible for the correct operation and custody of the fund.

13.4.2 Disbursement by Cheque

- (a) All disbursements of more than Tzs 50,000/= are to be made by pre-numbered cheques. Any spoiled cheques shall be ineradicably

stamped 'cancelled' and kept in proper numerical sequence so that all cheques in the series can be accounted for.

- (b) Cheques must be signed by any two officers authorized by the Board of Directors. The two signatories one from Group "A" and the another from "B". Under no circumstances should a cheque be signed by two signatories from the same group.
- (c) The specimen signatures of the authorised signatories must be in file with the Authority's bankers.
- (d) None of the signatories should have the duty of writing payment vouchers, handling cash and posting in the cash book.
- (e) Signatories should avoid signing blank cheques. Before signing any cheques they should satisfy themselves that every supporting document and voucher is attached and is correctly drawn and authorized.
- (f) All payment vouchers and invoices should be scrutinized for authenticity by relevant signatories and be stamped passed for payment by the Finance and Administration Manager before the cheque is prepared.
- (g) If the payment voucher is not proper it shall be returned to the originator with comments. Cheque preparation must be after the invoices and payment vouchers have been properly authorized and approved.
- (h) Only cheques drawn for replenishment of petty cash may be drawn 'Pay Cash'.
- (i) Employees of the Authority may be given open cheques on confirmed signature.
- (j) All other cheques drawn must be crossed Account Payee Only "– Not Negotiable."
- (k) Any persons collecting a cheque or posting/delivering them must sign for such cheques in the disbursement cheque register.
- (l) Supporting documents and voucher should be ineradicably stamped 'PAID' at the time of writing cheques and 'dated'.
- (m) When an authorized signatory is on leave or will be away from the office for a considerable period, the Managing Director may delegate in writing an appropriate staff member to be a temporary signatory and notify the bank accordingly.
- (n) Disbursements should not be made out of cash receipts.
- (o) Negligence is prohibited in recording of transactions, safe keeping keys of safes, cash boxes, strong rooms, offices and cabinets. When not in use, all important accounting books and documents must be locked up in a safe or strong room or safe box.

- (p) Adequate insurance cover must be taken for cash in transit and in the Authority's premises. All employees in key positions and all persons with access to cash, cheques, LPO and other valuables must be insured against possible unfaithfulness or theft.
- (r) Replacement of cheques deemed to have been lost to take place after the bank has proved in writing that the cheques has not been paid and after the Authority has instructed the bank in writing to stop payment of the lost cheque.
- (s) Payments on copy invoices shall take place after receiving a certificate of indemnity from the payee.
- (t) Payment vouchers must have adequate details which shall include reason for payment, full reference of invoices and other supporting documents. All material alterations on a payment voucher must be signed by the person making the alteration. Writing of payment vouchers, cheques and all recordings in books of accounts and documents must be made in ink.
- (u) All cheques issued by the Authority which are not presented to the bank six months after issue shall be treated as stale cheques. The value of a stale cheque should be debited to the bank account and credited to the creditor's account to reverse the entry. A fresh cheques shall be issued only after the claimant has returned the stale cheque.
- (v) The Accountant shall maintain a register keeping track of particulars of stale and dishonoured cheques.

13.5 Bank Reconciliation

A bank reconciliation is a statement displaying the items of difference between the balance of an account reported by the bank and the bank account appearing on the cash book of the Authority.

The objective of preparing a bank reconciliation statement is to see if the bank balance on any one particular date agrees with cash book balance.

Bank Reconciliation Procedures

Cash in the bank account balance may be reconciled to a bank statement, or the bank statement balance may be reconciled to the balance of the cash in the bank account.

The items that must be considered in a two part bank reconciliation are as follows:

Bank Statement	Authority's Cash Book
Bank Statement Balance	Cash Book Balance (Bank Column)
+ Deposits in transit	+ Unrecorded receipts
- Outstanding Cheques	- Unrecorded payments
(+ or -) Bank errors	- Returned cheques
	(+ or -) Book errors
Correct disposable cash	Correct disposable cash

13.6 Bank Reconciliation Steps

The bank reconciliation process involves comparing deposits shown on the bank statement with deposits that have been recorded in the accounting records. Any recent deposits that have not yet been reflected in the bank statement should be marked as deposits in transit. Also, note any errors that might have been made in recording deposits in the bank statement.

Arrange, in numerical order, the cancelled cheques returned with the bank statement, and:

Compare any cancelled cheques that were written in the preceding period with the outstanding cheques written in the period listed for the last bank reconciliation prepared. Note any cheques that are still outstanding at the current reconciliation date.

Compare cancelled cheques written in the period just ended with the cheques recorded in the accounting records, noting the outstanding cheques. Also note any errors that might have been made in recording cheques.

Prepare a list of cheques outstanding at the reconciliation date.

Identify any increases or decreases on the bank statement that have not already been recorded in the cash book. Increases and decreases for other than routine deposits and cheques will usually be keyed with special symbols on the bank statement.

Reconcile both the bank statement balance and the cash in the bank account balance to the current disposable cash at the reconciliation date.

13.7 Accounting for Stale Cheques

A stale cheque is a cheque which remains un-presented by the payee to the paying bank for a minimum period of 6 months since the date of its issue.

After ascertaining with the bankers that a certain cheque has not been presented by the payee for 6 months, the Finance and Administration Manager will be required to reverse the original entries that resulted in the issuance of the relevant stale cheque as follows:

DR Bank Account

CR The Payee's (Creditor's) Account

Efforts should be made to contact the payee of the cheque in order to resolve the matter.

CHAPTER XV

14.0 ACCOUNTING FOR PROCUREMENT

14.1 Receipt of Invoices

- (a) All in-coming creditors invoices shall be delivered to the Secretary of the Managing Director who will date stamp the invoices and sort them into local creditors invoices and foreign creditors invoices.
- (b) The local and foreign invoices shall be delivered to the Creditors Accounts officer where the Original Goods Received Note and Local Purchases Order copy are attached.
- (c) Each Creditor's Invoices is assigned an internal serial number and month for future reference and identification purposes.
- (d) After writing on the invoices the internal identification number, process it immediately through the computer accounting tally system.
- (e) After processing each invoice computer system, stamp each invoice "POSTED"

14.2 Checking Of Invoices

- (a) On receipt of an invoice, match this invoice (which will give reference of the LPO number with a copy of the LPO) to ensure that the purchase of goods/services was properly authorized. Then match the invoices with the original GRN to ensure that the goods were actually received by the authority.
- (b) The following points should be checked that:
 - That the LPO was been properly authorized by designated signatories.
 - That the GRN is signed by the receiving storekeeper and the Supplies Officer and LPO be certified by the originator of the order.
 - The types of goods, quantity and quality of goods, invoiced are the same as those ordered and received.
 - The invoice prices of goods are the same as the LPO prices.
 - The extensions (quantity x price) and additions on the invoice are arithmetically correct.
 - Goods received have been entered in the stores ledger.

Where errors are not detected, the invoice shall be stamped 'CERTIFIED', signed and dated by the Creditors Officer Only the original invoices should be processed for payment without a supplier's certificate of indemnity.

The certified invoices on which are attached the LPO and GRN shall be kept in a numerical sequence in the payable file according to the invoice's internal serial numbers.

14.3 Over Invoicing

When the quantity billed is larger than the quantity received as per GRN, it means that the supplier has over billed the Authority. The supplier's invoice should be returned to the supplier for correct invoicing.

14.4 Under Invoicing

When the supplier's invoice price is less than the LPO price as per the supplier's pro-forma invoice, the invoice should be returned to the supplier for correct invoicing. This could result from under delivery of the goods / services supplied or an error in the invoicing computation.

14.5 Errors In Extensions And Additions On The Supplier Invoice

When the errors in extensions and additions on the supplier's invoice lead to higher amount than required, the Accountant should raise a Debit Note in order to bring the Authority's ultimate payment to the correct amount.

14.6 Quantity Received Different From The Quantity Ordered

When the quantity ordered is more than the quantity received, note the quantity received on the LPO, report the matter to the Finance and Administration Manager, and then photocopy the LPO. Attach the LPO photocopy to the invoice and GRN and process the payment in the normal manner. Follow up on the balance of the undelivered quantity with the supplier.

If the quantity received is larger than the quantity ordered, it means the surplus amount received has not been authorized by the Authority and should not be accepted and therefore should be returned and not paid for.

14.7 An Invoice Without an LPO

When an invoice arrives without an accompanying LPO, after the Authority has received the goods/services, send the invoices to the Finance and Administration Manager for seeking authorization from the responsible Head of Department. After approval process payment in the normal way.

14.8 Un-Approved Invoice

An invoice will not be approved if there is no LPO and GRN and the concerned Head of Department testifies that the goods/services were not received. This invoice should not be approved for payment. Write the word 'not approved' on the invoice and file it in the Unapproved Invoices file.

14.9 Service Invoice

- a) Any service purchase from a supplier should be done by giving the supplier of such services an LPO. Thus, on receipt of a service invoice, check the invoice for extensions and additions and match it with the LPO to ensure that the service purchase was properly authorized.
- b) Ascertain that the service was actually rendered to the Authority before paying the invoice. This should be done by requesting the concerned Head of Department to give a certificate of receipt the of service and approve the invoice for payment by stamping the invoice 'CERTIFIED' after giving it an internal serial number. Enter the certified invoice in the Purchases Day Book and Creditor's Ledger. Then file in the 'Unpaid Invoices File, pending date of payment.

14.10 Duplicate Invoice

Only original invoices should be processed for payment.

Where a duplicate invoice is processed for payment because the original invoice is not traceable, the supplier must give the Authority a “Certificate of Indemnity” which has to be attached to the duplicate invoice.

14.11 Invoices Payment

- (a) It is necessary for the authority to pay its creditors promptly on due date so that they may continue to offer their goods and services to the Authority.
- (b) Every week compare dates of the outstanding invoices with the credit terms extended by the supplier as indicated on the top of the creditor’s ledger cards so as to identify those creditors’ balances which are due for payment.
- (c) Remove the invoices due for payment together with their supporting documents from the Unpaid Invoices File and attach them to their respective Remittance Advices according to suppliers.
- (d) Total the Debit and Credit column of the Remittance Advice. Establish the amount payable to the supplies by subtracting the total debits from the total credits.
- (e) Stamp each invoice and payment voucher with “PAID CHEQUE NUMBER AND DATE”. All payment vouchers should be serially numbered monthly by the payment accounts staff.
- (f) Record the cheque number, date and amount on the Creditors Ledger.
- (g) Prepare a Daily Creditors Payment Summary and use this summary to post the Creditors Control Ledger.
- (h) A Cheque Payment Voucher shall be prepared for each creditor for the net payable amount. Attach the Remittance Advice, the Invoice, the LPO and the GRN. After being signed by the person preparing it, the payment voucher should be sent to the Expenditure Accounts Office for checking and then for approval by the Finance and Administration Manager. After being approved, the payment voucher shall be sent for cheque preparation.

14.12 Pro-Forma Invoices

- (a) Pro-forma invoices are price quotations sent by suppliers who intend to supply goods / services to the Authority before they supply such goods or services.
- (b) Proper control over such payment is necessary in order to ensure that the supplier provides the goods or services within the agreed period of time so that the authority’s money is not lost or unduly tied up.
- (c) All pro-forma invoices must be followed by a proper Invoice once an authorized LPO has been issued and must be channelled through the Supplies Officer.

- (d) The Creditors Control Officer shall receive the pro-forma Invoice together with properly authorized LPO and check that:
- The LPO is properly authorized
 - The Pro-forma invoice prices agree with the LPO prices.
 - The extensions (quantity x price) and addition on the pro-forma invoices are arithmetically correct. Any errors or differences detected should be cleared with the Supplies Officer before the pro-forma invoice is processed.
- (e) The Creditors Control Officer shall stamp on the pro-forma invoice “certified, date, signature and designation” as evidence of his/her review.
- (f) The pro-forma invoice and LPO shall be attached to the Cheque Payment Voucher as supporting document for approval.
- (g) The Creditors Control Officer shall complete the pro-forma Invoices Register and keep the copy LPO and pro-forma invoices to their respective files according to numerical sequence and supplier, respectively.
- (h) The goods purchased on pro-forma invoice shall be received in the normal manner by the inspector and store keeper.
- (i) The Creditors Control Officer shall receive a copy of the GRN from the storekeeper and match it with the copy LPO and proforma invoice for verification that all invoiced goods have been received. Any short fall should be followed up immediately with the supplier and Supplies Officer and a Debit Note should be issued to the supplier and a copy of the debit note filed with the pro-forma invoice.
- (j) The received goods and debit note shall be recorded in the proforma Invoices Register by the Creditors Control Officer
- (k) When the goods/services ordered by Pro-forma invoice have been received fully the copy LPO and Pro-forma invoices should be stamped “Retired” followed with “date, signature and designation of Creditors Control Officer”
- (l) Service Pro-forma invoices are to be retired by the Creditors Control Officer after receipt of certificate of service rendered. This certificate shall to be completed by the Head of Department of the unit which received service prepaid on pro-forma invoice which was supported by an LPO dully authorized.
- (m) When a paid pro-forma invoice is not supported by a GRN or a Certificate of Service Rendered, the matter should be taken up by the Creditors Control Officer with the Supplies Officer and Supplier.

14.13 Supplier’s Statement

- (a) Normally, every end of the month, various suppliers send statements of accounts showing all invoices issued by the suppliers to the authority and all cheques received from the Authority by the suppliers.
- (b) The Creditors Control Officer shall compares the supplier’s statement with the Authority’s Creditors Ledger Card for the particular supplier. Generally,

there should be no differences, but sometimes differences occur. The difference (if any) must immediately be cleared/reconciled with the supplier by identifying:

- Invoices issued by the supplier which have not yet been received by the Authority.
- Invoices issued by the supplier which do not concern the Authority.
- Debit Notes issued by the Authority which have not been received or received by not yet posted by the supplier.
- Cheques issued by the Authority which have not been received by the supplier.

CHAPTER XVI

15.0 ACCOUNTING FOR STOCKS OF WATER MATERIALS

15.1 Introduction

Being a water authority, most of the Authority's stocks will be related to water materials and chemicals. It is very important that such stocks are properly recorded and valued in order for the Authority to be able to have a fair financial reporting of its activities at year end.

15.2 Necessary journal entries for stocks of water materials.

When the Authority buys galvanised pipes for water distribution, the following journal entry will be passed:

Dr. Water Pipes Stocks Account with the value of the purchased galvanised pipes
Cr. Cash/Bank Account

On usage of the galvanised pipes while supplying of water to customers, the following journal entry will be passed:

Dr. Water Distribution Expenses with the value of the galvanised pipes used
Cr. Water Pipes Stocks Account

When the Authority buys water chemicals, the following journal entry will be passed:

Dr. Water Chemical Stocks with the value of the purchased Water Chemical
Cr. Cash/Bank Account

On usage of the water chemical stocks for water treatment/disinfections, the following journal entry will be passed:

Dr. Water Production Expense Account
Cr. Water Chemical Stocks Account

When water chemical stocks is obsolete due to poor storage conditions/innovations etc., the following journal entry will be passed:

Dr. Water Chemical Loss Account
Cr. Water Chemical Stocks Account

CHAPTER XVII

17.0 BUDGET AND BUDGETARY CONTROL

17.1 Budget

A budget is a plan quantified in monetary terms, prepared and approved prior to the beginning of a financial year. A budget shows income planned to be generated and expenditure to be incurred during a year and the capital to be employed in order to attain given objectives. For the purpose of exercising financial discipline and control it, is necessary to forecast the income and expenditure on a scientific basis taking into account the past, actual and future trends and work programmes. Budgets shall be prepared quantitatively, qualitatively and financially for short periods of up to one year as required by the Waterworks Regulations/Waterworks Ordinance, but as a matter of operational practice and sound planning, long term budgets of three to five years shall also be prepared.

17.2 Budgetary Control

The budgetary control system constitutes the most significant component of the Management Information System whereby the Authority's income, capital, and revenue expenditures are controlled.

The main operating features of the system are described below:

- (a) The division of the Authority into areas of responsibility which correspond with those established by the organisational structure.
- (b) The use of account codes to classify income and expenditures as well as assets and liabilities.
- (c) Preparation of budgets for specific projects income and expenditures, and inclusion of these budgets in the Authority's plan, thus forming a comprehensive and integrated plan of activities for the ensuing year.
- (d) The collection and analysis of actual expenditure incurred by the responsibility centres to ensure that commitments do not exceed budgets.

17.3 The Budget Process and Review

- (a) The budgeting activity shall be rolled out by a budget guidance letter issued by the Managing Director at least six months before the close of the year outlining the Government policies, general economic conditions, guidelines on how to budget and budget time-table.
- (b) It is the responsibility of each head of department to prepare an appropriate budget for the department in an accepted format approved by the Authority.
- (c) The Finance and Administration Manager shall obtain forecasts and estimates for the annual budget from each department and then consolidate them into the Authority's annual budget.
- (d) The Authority's annual budget shall be discussed by the Management, the Workers Council and thereafter by the Finance and Planning Committee before submission to the Board of Directors for approval.

- (e) The Authority's annual budget must be approved by the Board of Directors at least two months before commencement of the financial year.
- (f) The Finance and Administration Manager shall make monthly review of the revenue budget and capital budget by comparing actual performance with estimates, obtaining reasons for variances and recommending appropriate corrective action.
- (g) Under no circumstances shall a deficit annual budget be operated by the Authority.
- (h) Revised budgets shall be approved by the Board of Directors only if sources of funds have been identified and prevailing circumstances demand so.
- (i) Reallocation between recurrent expenditure items of up to 5% shall require the approval of the Managing Director and up to 10% shall require the approval of the Finance and Planning Committee.
- (j) Reallocations between capital expenditure items must have the approval of the Board of Directors.
- (k) No charge shall be made against budgetary item except for the specific purpose which falls within the amount of the budgetary item and for which due provision has been made in the budget.
- (l) All the Authority's employees responsible for expenditure are expected to exercise due economy and thrift. Money must be spent only if it is absolutely necessary, and not merely because it has been provided for in the budget.
- (m) The Authority's annual budget shall consist of:
 - Summary review of the Authority's budgetary performance of previous years.
 - Critical assumptions on which the following year's budget is based
 - Revenue Expenditure Budget
 - Capital Expenditure
 - Projected Balance Sheet
 - Projected Income and Expenditure Statement
 - Cash Flow Statement
 - Water Production Budget
 - Water Sales Budget
 - Manpower Budget (Broken down departmentalwise)
 - Department's Budgets Summary
 - Purchases Budget Summary
 - Foreign Currency Requirements.

CHAPTER XVIII

18.0 MANAGEMENT INFORMATION SYSTEM AND PERIODIC REPORTING

18.1 Management information system

Management information system is the combination of human and computer-based resources that results in the collection, storage, retrieval, communication and use of data/information for the purpose of efficient management of operations and for business planning.

18.2 The Objectives of the Management Information System are:

- (a) To formulate an acceptable operating plan and detailed performance targets for the Authority
- (b) To provide up to date information to management and staff as is appropriate, e.g.
 - (i) Actual expenditure for each activity in relation to funds available.
 - (ii) Comparison of funds received from donors/government vis a vis income generated internally.
 - (iii) The comparison of actual results achieved with those planned.
 - (iv) The analysis of differences between planned and actual achievements to assist management in identifying the need for corrective action.
 - (v) Analysis of performance indicators for projects operated by the Authority.
- (c) To motivate the need for installing an integrated accounting system network whereby information can be accessible from desktops. Access to information shall, be restricted to on job need basis only.

The majority of the data used in the management information system flows from the basic recording system.

Information is said to be of good quality if it is provided at the right time and is accurate, complete, relevant, reliable, and understandable. This information can be obtained from within and/or from outside the Authority.

18.3 Responsibility

The Finance and Administration Department facilitates management controls through the **budgetary system, reporting and internal control**. However, every officer in the authority is responsible for providing quality financial and non-financial information to management for decision making as well as for performing his day to day activities.

18.4 The Budgetary Control

The Managing Director shall submit the Authority's budget and cause it to be approved by the Board of Directors two months before the commencement of the respective accounting year. He should also, through Officials who report directly to him, i.e. the Finance and Administration Manager, the Technical Manager and

the Commercial Manager, submit the periodic management reports to the Board of Directors, the Parent Ministry, and any other regulatory bodies as the case may be.

The frequency of these reports is monthly, quarterly and annually. The reports are as listed below:

- Annual Revenue and Capital Budgets for each financial year which shall be submitted and approved by the Board of Directors two months before the commencement of the accounting year being budgeted for.
- Quarterly operating reports comparing actual performance with budgeted and giving justification for variances
- Annual operating report within one month after the closure of the financial year, comparing actual performance with budget and giving justification for the variances.
- Annual Accounts duly audited by the External Auditors within one month after receipt of the audited accounts from the External Auditors together with adequate answers to audit queries and observations.

18.5 Periodic Reporting

The management information reports from the accounting system are classified as follows:

- Monthly Reports
- Quarterly Reports
- Annual Reports

18.6 Monthly Reports

In a fully computerised and on-line system, monthly reports should be completed within seven days after each month end. The basic monthly reports are:

- The Trial Balance
- The Analytical Operating Report
- The Bank Reconciliation Statement
- Age Customer Debtors and Staff Debtors List
- Creditors Outstanding List

18.7 The Trial Balance Report

This is a self- balancing report of debit and credit balances. The main purpose of the trial balance report is to check the integrity of the accounting system. System faults could cause the ledgers not to balance. Therefore, on a monthly basis, the Trial Balance should be run to check the integrity of the system. More details of the Trial Balance are given on chapter 22 which covers the Annual Accounts.

The Trial Balance can be used as follows:

- For audit trail, whereby through drill-down facilities, transactions can be checked from source documents to the ledger.
- It is a support document for the final accounts.

Once prepared, the Trial Balance should be distributed to the Finance and Administration Manager and Departmental Heads.

18.8 Analytical Operating Report

This report is printed from the system by the Finance and Administration Department. It compares actual cumulative revenue and expenditure against budgets for each account. It also gives out the differences between the actual and budget on monthly and year to date basis. The report should include comments from departmental heads on how they think they have contributed positively or negatively to the results of the company, emphasising on available resources and work environment.

The report should be discussed at a meeting of all the departmental heads and chaired by the Managing Director.

18.9 Bank Reconciliation Statement

The bank reconciliation has been dealt with in chapter 13, but for reporting purposes it is required that at the end of each month the Accountant should collect bank statements from the bank for the previous month together with the present cheques and other debit and credit notes and carry out bank reconciliation.

The bank reconciliation should be investigated by the Finance and Administration Manager for any anomaly which should be reported to the Managing Director. The Managing Director should consider and assess the matter as appropriate.

18.10 Age Debtors Analysis

This is a monthly list that reports all outstanding balance from debtors grouped in the age of 30 days, 30 to 90 days, and over 120 days.

The report is used in:

- Reviewing the outstanding balance from each debtor
- Identifying the overdue customers accounts
- Initiating management action on overdue accounts
- Assessing efforts on collection of the outstanding debts.

The report should also include the Authority's staff debtors.

The report should be distributed to the Finance and Administration Manager and Departmental Heads and the Managing Director.

18.11 Age Creditors Analysis

This is a monthly list that reports all outstanding balance from creditors grouped in the age of 30 days, 30 to 90 days, and over 120 days.

The report is used in:

- Assessing the cash flow needs to meeting maturing obligations. When used with bank balances, it can give the overview of the net liquid position of the Authority.
- Assessing the creditors accounts that need priority for payment in case of insufficient cash flow.
- Initiating management action on payment of overdue creditor's accounts.

The report should be distributed to the Finance and Administration Manager and Departmental Heads.

18.12 Quarterly Reports

Quarterly reports consist of the following:

- (a) The monthly reports consolidated into sets of quarterly reports.
- (b) The Finance and Administration Manager should ensure that the following quarterly reports are prepared by the second week after the end of the quarter:
 - Cash Flow Forecast
 - Revenue and Expenditure Statement
 - Balance Sheet
 - Cash Flow Statement
 - Quarterly Operating Report

18.13 Cash flow forecast

This report is to be prepared at the end of every quarter showing a projection of cash requirements for the next quarter.

18.14 Revenue and Expenditure Statement

This is a quarterly statement of activities which enables management to assess the Authority's performance during the previous quarter and decide on corrective action to be taken for the next quarter's projected activities.

18.15 Balance Sheet

This is a snap shot of the financial position of the Authority for the quarter.

18.16 Cash Flow Statement

This is the financial statement that reports the flow of cash into and out of the Authority for the quarter. The information on this report is useful in displaying the ability of management to generate funds and utilize them in profitable investments.

18.17 Annual Reports

At the end of each accounting year, it is the responsibility of the Finance and Administration Manager to prepare an annual Trial Balance and the following listed reports:

- The Revenue and Expenditure Statement
- The Balance Sheet
- The Cash Flow Statement

The three reports form the statutory financial statements, which the Authority is required to prepare on an annual basis. The reports must be audited by external auditors and presented to the Board of Directors and finally submitted to the Parent Ministry by 31st December of the relevant account year.

CHAPTER XIX

19.0 FIXED ASSETS MANAGEMENT

19.1 GENERAL

The purpose of this chapter is to establish the fixed assets capitalisation policy, and procedures governing acquisition, recording, maintenance, control, disposal, and documentation to be used in the managing of the Authority's fixed assets.

(a) A fixed asset is a tangible asset held for providing services. It enables an organization to carry out its intended activities. Its life is more than one year. Included in the usual fixed-asset categories are land, plant and machinery, equipments, furniture and fittings etc.

(b) The Authority's fixed assets are categorized into the following:

- Land
- Water Production Buildings
- Residential Buildings
- Office Buildings
- Water Plant and Machines
- Workshop Machines and Equipments
- Motor Vehicles
- Office Equipments
- Office Furniture and Fittings
- Improvement on Land e.g. Roads, Sewers Network

19.2 CAPITALIZATION POLICY

19.2.1 All purchases and acquisitions of fixed assets whose life expectancy is more than 1 year must be capitalized.

The distinction between Capital and Revenue Expenditure is extremely important, because the former results in, or is due to, the acquisition of assets which must appear in the Balance Sheet while the latter represents the expenses incurred in the business and is debited to the Income Expenditure Account.

19.2.2 For purpose of clarification guidelines on what costs to be capitalized under various categories of assets is given below:

- (i) Plant and Machinery
 - Rehabilitation
 - Major Overhaul
 - In case of new machinery:
 - Cost of Machinery
 - Erection Expenditure
 - Freight Expenditure
 - Supervision Expenditure such as, Salaries, Allowances, Management Fees etc.
- (ii) Motor Vehicles
 - Cost of acquisition

- Insurance
 - Body Building
 - Registration Fees
- (iii) Furniture and Fittings
- Purchase Price
- (iv) Land and New Buildings
- Cost of land
 - Raw material
 - Electrical installation
 - Water Connections
 - Legal Fees
 - Labour Charges
 - Other related Costs
- (v) Already Existing Buildings
- Major Renovations
 - Addition to buildings

19.2.3 The capitalized fixed assets shall be debited to the appropriate fixed assets category when the ownership title of the asset passes to the Authority by purchase from the supplier, by transfer from the Ministry and by completion and handing-over of the constructed building/road from the contractor.

19.2.4 The capitalized costs of the fixed assets are the original purchase price plus all cost which are necessary to deliver the asset to the appropriate location and made use.

19.3 ACQUISITION OF FIXED ASSETS

The factors to be considered when deciding to acquire fixed assets shall include:

- 19.3.1 Suitability of the new fixed asset for:
- Existing work requirements
 - Utilizing substitute materials
- 19.3.2 Adequacy of the new capacity for:
- Existing work requirements
 - Meeting the schedule led water production
- 19.3.3 Relationship with existing fixed assets
- 19.3.4 Degree of quality attainable
- 19.3.5 Reliability of operations
- 19.3.6 Safety of operations
- 19.3.7 Changes in costs which will be necessitated by the new asset
- 19.3.8 Change that will necessitate:
- (a) Operation methods
 - (b) Scheduling

- (c) Training of workers
- (d) Labour-force requirements
- (e) Wage rates
- (f) Handling equipments

19.3.9 Requirements for installation with respect to:

- (a) Physical structure of the building
- (b) Alterations to utility services, such as water and electricity
- (c) Location of fire fighting facilities

19.4 ACCOUNTING FOR FIXED ASSETS

19.4.1 This chapter shows how to record entries related to fixed assets:

- (a) When the Authority purchases fixed assets on cash basis, the following journal entry will be passed:
Dr. Fixed Assets Account
Cr. Cash/Bank Account or Supplier's A/C
- (b) To take charge of the fixed assets depreciation, the following journal entry will be passed:
Dr. Depreciation Expense Account
Cr. Accumulated Depreciation Account
- (c) To transfer depreciation expenses to the Income and Expenditure Account, the following journal entry will be passed:
Dr. Income and Expenditure Account
Cr. Depreciation Expense Account
- (d) When the Authority disposes a fixed asset through sale on cash basis, the following journal entry will be passed:
Dr. Cash/Bank Account with fixed assets proceeds
Cr. Fixed Asset Disposal Account

Dr. Accumulated Depreciation on the fixed account
Cr. Fixed Asset Disposal A/C

Dr. Fixed Asset disposal Account
Cr. Fixed Asset Account

Dr. Income and Expenditure Account (to write off the loss)
Cr. Fixed Asset disposal account

Dr. Fixed Asset Disposal account (to account of the profit)
Cr. Income and Expenditure Account
- (e) When the Authority takes an insurance cover on a fixed asset, the following journal entry will be passed:
Dr. Fixed Asset Prepaid Insurance Account
Cr. Cash/Bank account
- (f) When the fixed assets insurance cover expires after the end of the insured period, the following journal entry will be passed:
Dr. Fixed Assets Insurance Expenses Account
Cr. Fixed Assets Prepaid Insurance Account

- (g) When the fixed asset insurance expense is transferred to the Income and Expenditure Account, the following journal entry will be passed:

Dr. Income and Expenditure Account
Cr. Fixed Asset Insurance Expense Account.

19.4.2 Depreciation of Fixed Assets:

As fixed assets value expire, they are transferred to depreciation expense account. The unexpired fixed assets value is what is termed net book value. In the case of depreciation of fixed assets, the credits reflecting decrease in fixed assets, are accumulated in a separate account called Accumulated Depreciation Account, a contra (offset) account that should be viewed along with the account showing the fixed assets original value. A contra account is one that accumulates depreciation on fixed assets so that the fixed asset account can continue to show the full value of the fixed asset being depreciated.

19.4.3 Computation of Depreciation

Depreciation on all property of a permanent nature shall be provided for annually at the straight-line methods over the economic useful life of the asset and shall be based on historical costs. For purpose of this manual, the residual value to be adopted shall be Tzs 1.00 as a token value.

In computing depreciation the expense will be recognised on pro rata basis and no depreciation shall be charged on assets which are acquired during the last 15 days of the accounting period, that is end of financial year.

19.5 FIXED ASSETS CONTROL SYSTEM

- (a) It is vital for the Authority to install and operate a sound fixed assets control system because such a system provides information that facilitates:
- Knowing the existing assets
 - Knowing the available capacity and the related capacity costs
 - Knowing the existing capacity imbalances requiring rectification
 - Accumulation of depreciation costs by cost centres
 - Monitoring of the movement of movable fixed assets
 - Taking of appropriate insurance coverage for fixed assets
 - Making of realistic Capital Expenditure Budget
 - Establishment of preventive maintenance system
 - Making of sound capital items replenishment decisions
- (b) Ownership of fixed assets should be carefully planned because it is capital expenditure which:
- Ties up large sums of money for many years
 - Unfavourable effects of badly made decisions exist for many years
 - Increases the volume of production/sales needed to cover overall costs.
 - Gives rise to subsequent charges against profit. These costs include:
 - Depreciation cost
 - Insurance cost

- Electricity cost
 - Fuel and oil cost
 - Labour cost
 - Interest on borrowed funds
- Involves Repairs and Maintenance costs
 - Could involve loss arising from obsolescence when an asset though still serviceable, is no longer required because it has been superseded by an improved model due to technological advancement.

19.6 IDENTIFICATION OF ASSETS AND RECONCILIATION WITH THE ASSETS REGISTER

Except for the Land, Buildings and Vehicle, all the fixed assets of the Authority shall be marked (coded) with a proper serial number which can be easily located and identified in the fixed assets register.

- The location of each individual asset should be coded alphabetically for facilitating easy identification and location.
 - Other information to be written in the register are as follows:
 - Name of supplier
 - Supplier's invoice and/or cash sale number
 - Date of purchase
 - Rate of depreciation etc.
- (a) It is important for the Authority to know all the fixed assets it owns with their economic life because such information facilitates:
- Carrying out a physical verification of fixed assets
 - Calculation of depreciation cost for use in the Balance Sheet and Income and Expenditure Account.
 - Reporting of theft, damage, fire and accident to the police and insurance firm.
 - Taking of insurance covers
 - Charging of depreciation to departments
 - Making replenishment decisions

The mechanism used to keep track of details of each fixed asset is as follows:

- (b) A separate fixed assets card shall be written for each fixed asset acquired and put into use.
- (c) Cards of each category of fixed asset shall be filed together according to year of acquisition and within each category, the cards shall be filed location-wise.

19.7 FIXED ASSETS CONTROL REGISTER

The Authority's Fixed Assets Register shall comprises of separate cards for each major individual fixed assets such as, a tractor, plant, machine, vehicle, and building. Properly marked dividers shall be used to separate the cards relating to each pre-determined class of fixed assets in order of date of acquisition. For example, assets bought in 1990 shall be grouped together and those bought in 1995 shall be grouped together.

Each fixed assets card shall contain a minimum of the following information:

- Description
- Function
- Make
- Mode
- Serial number
- Authority identification code
- Registration number
- Capacity
- Horse power
- General classification of the asset
- Size
- Weight
- Location
- Supplier's/Manufacturer's address
- Acquisition/purchase date
- Reference of purchase
- Reference of acquisition authority
- Invoice number and date
- Acquisition value/Purchase value
- Acquisition charges
- Revaluation value
- Revaluation authority reference
- Date of revaluation
- Latest condition
- Movement and transfer voucher references
- Second-hand/New
- Guarantee period
- Insurance policy date
- Insured value
- Period covered by insurance
- Estimated economic life
- Installation date and cost
- Estimated salvage value
- Disposal date, gain or loss
- Depreciation method and rate
- Annual depreciation
- Cost of annual overhauls
- Buildings details:
 - Function
 - Details of the Architect
 - Reference of building drawings and bill of quantities
 - Contractor details
 - Floor, wall, roof materials
 - Distance from one building to another building
 - Area and cubic space
 - Maintenance/repairs required

19.8 FIXED ASSETS DOCUMENTATION

- (a) Record keeping for plant, machines, equipment, buildings and furniture are important for accounting, control insurance, transfers, location, maintenance, identification, assigning of inspection schedules, for listing of replacements, spare parts to be stocked, and for knowing of capacities.
- (b) Among the various fixed asset documents to be kept, the vital ones include:
 - Catalogues
 - Installation manuals
 - Operation manuals
 - Servicing and maintenance manuals
 - Machine drawings
 - Building drawings
 - Fixed assets registers
 - Non-capitalised fixed assets registers
 - Spare-parts codes books
 - Address of manufactures/Suppliers
 - Addresses of suppliers
 - Price lists of spare-parts
 - List of organizations using the same plant and machine
 - Insurance policies
 - Title-deeds
 - Files of authority for acquisition, transfer, disposal
 - Fixed assets valuation report

19.9 FIXED ASSETS MOVEMENT REGISTER

- (a) The Authority's management has the responsibility of recording movements of fixed assets from one department to another department and by employees:
- (b) The record is important for:
 - Control purposes
 - Knowing the place of custody of the asset
 - Knowing the person responsible for any damage caused on the asset and hence responsible for its repair
 - Knowing where the asset is during physical verification task
 - Facilitating allocation of operation costs arising from depreciation among cost centres.
- (c) All fixed assets shall be transferred or borrowed after obtaining permission in writing from the Finance and Administration Manager. The person in charge of the fixed assets shall record the movements of the assets in the Fixed Assets Movement Register before releasing the items to the rightful borrower. Negligence of issuing the assets without recording them shall be taken seriously by the management.
- (d) The Fixed Assets Movement Register shall contain the following information:
 - (i) Borrowing Details
 - Date

- Name of borrower (Transferee)
 - Name of custodian (Transferor)
 - Designation of borrower
 - Department and section of borrower
 - Description of asset borrowed
 - Authority identification code
 - Manufacturer's identification reference
 - Present location of the item
 - Unit
 - Quantity borrowed
 - Place of use (new location)
 - Work to be done (reasons for transfer)
 - Signature of receiver
 - Name of the ledger
 - Ledger folio
 - Condition of the item
 - Date of return
 - Gate pass reference and date
 - Fixed asset Transfer Note Number and date
- (ii) Returning Details
When the asset is returned, the following details should be recorded:
- Date
 - Quantity returned
 - Condition
 - Signature of storekeeper receiving the returned asset
 - Signature of returning person

19.10 INSURANCE OF FIXED ASSETS

- (a) The Authority should adequately insure all its important assets against risks with the right type of insurance cover.
- (b) In order for the Authority to avoid losing its insurance claims, the following shall be adhered to:
- (i) Have an officer who shall be in charge of fixed assets and insurances matters.
- (ii) In regard to the Authority's buildings have an up to date sketch map of the entire building complexes showing:
- Distance from one building to another. This is because spread of fire is a function of distance in between the buildings.
 - Construction materials of roof, wall and floor of buildings.
 - The uses of each buildings
 - Type and quantity of properly kept in each building and room. Hazardous items to be kept in separate places with appropriate fire precautions.
- (iii) Keep in safe custody ownership documents of various types of fixed and current assets.

- (iv) Install fire-fighting equipments in all buildings. Such equipments should be serviced by fire experts at appropriate time intervals.
- (v) The Authority shall maintain insurance records showing:
 - Insurance firm
 - Property insured
 - Insured amount
 - Rate of premium
 - Annual premium
 - Excess
 - Name of insurance cover
 - Insurance Policy number
 - Date of insurance
 - Period covered by the insurance
 - Date of renewal of the insurance
- (vi) In case of a motor-accident, the Authority shall furnish the following documents to the insurance company:
 - Sketch-map of the place of accident
 - Police inspection report
 - Garage report of estimated repair cost
 - Insurance company's assessor's report
 - Valid driving licence, of the right class, of the driver involved in the accident.
 - Letters from the Managing Director that permits the driver to drive the vehicle involved in the accident if the concerned is not employed by the Authority as a driver.
 - Report to the Insurance Company about the accident in the required period
 - Keep the vehicle involved in the accident in a safe place
 - In order for the Authority's insurance claim to succeed it is important that there should have been no negligence on the part of the driver involved in the accident.
- (vii) In case of fire accident, the Authority should furnish the following to the insurance company:
 - Fire report
 - Police report
 - List of items destroyed by fire and their values
 - Proof of existence of fire precautions

19.11 CLASSES OF INSURANCES:

The classes of insurance covers which the Authority may take are as follows:

Burglary

Cover - burglary and house breaking

Items for insurance - All fixed assets, spare parts

Fidelity Insurance

Cover - Pecuniary loss due to any act of fraud or dishonesty by the Authority's employees.

Public Liability

Cover - third Party property and injury

Motor Private Cars

Cover - Comprehensive

Items for insurance - All saloon cars, and their respective window screens.

Use current value of the vehicles

Motor Omnibus

Cover - Comprehensive

Items for insurance - All buses and their respective window screens

Insurance value - Use current value of the vehicles

Motor Commercial

Cover - Comprehensive

Items of insurance - Pick ups, lorries, trucks, trailers and tractors.

Insurance value - Use current value of the vehicles

Motor Special Types

Cover - Comprehensive

Items for insurance - Fork Lifts

Insurance value - Use current value of the vehicle

Fire

Cover - Fire, Lightening, riot and strike, malicious damage, bush fire, explosions, etc.

Items for insurance -All building, such as stores, godowns, office buildings, tools, spares and utensils.

Insurance value - Use the current value of the respective asset.

House Owners Comprehensive

Cover - fire, burglary and other perils

Items for insurance - Buildings

Insurance value - Current value of the buildings

Householders' Comprehensive

Cover - Fire, burglary, theft and other perils

Items for insurance - House contents

Insurance value - current value of the property.

19.12 VERIFICATION OF PHYSICAL EXISTENCE

- (a) The physical existence of plant, machines, equipments and other types of fixed assets shall to be independently checked half yearly by a team of competent staff from the Accounts, maintenance, water production and administration sections by using the Fixed Assets Register.
- (b) The information to be checked and verified by such a team shall include the following:
 - Name of the fixed asset
 - Function of the asset
 - Manufacturer's reference
 - Authority Identification reference
 - Location
 - Existence

- Condition of the Fixed Assets and Recommended action
 - Possible use after replacement
 - Level of utilization
 - Replacement value for insurance purposes
 - Reconciliation of book balance with accumulated depreciation
 - Insurance policy number
 - Value of insurance.
- (c) Physical verification of fixed assets shall be carried out annually, preferably, before the end of the accounting year. This shall be done by the accounting staff with the assistance of stores and technical staff. A list of assets under each fixed assets code shall be compiled prior to verification date and this shall be ticked while checking the assets physically. Major discrepancies shall be reported to the management while minor discrepancies shall be adjusted before the annual accounts are finalized.

19.13 FIXED ASSETS MAINTENANCE

- (a) This is a scheduled or planned preventive maintenance which involves inspection, lubrication, adjustment, repair, or replacement of plant, machines and equipment at predetermined time intervals and on the basis of predetermined standards, methods and programmes.
- (b) The major reason for existence of maintenance is to ensure the availability and efficiency of existing plant, machines, equipments and buildings in a manner required by the Authority. The maintenance program should therefore aim at:
- Ensuring that the Authority's fixed assets are available for use as expected
 - Ensure maximine utilise of the Authority's fixed asset
 - Ensure that Authority's plant machines operate in an efficient manner at the required level of production
 - The downtime which may be caused by a breakdown should be at minimum.

19.14 BENEFITS FOR PREVENTIVE MAINTENANCE

An effective system of planning and controlling of maintenance will enable the Authority to:

- Reduce the amount of water production lost through down-time.
- Improve the quality of the water
- Reduce accidents
- Reduce time and cost of maintenance
- Extend life of plant, machines and equipment
- Assist in manpower planning for maintenance
- Help to control investments in spares and maintenance materials and standby motors
- Lower breakdown and unscheduled down-time

19.15 THE TIME AND COST OF THE PLANNED FIXED ASSETS MAINTENANCE

- (a) In deciding how much time and money to spend on maintenance, the Authority should balance three factors:
- The cost of keeping machines and equipment in good running order.
 - The cost of lost water production through breakdowns
 - The cost of replacing worn-out machines and equipments.
- (b) The Authority's maintenance programme should therefore aim at:
- Keeping the cost of lost water production below the cost of additional maintenance; and
 - Keeping the cost maintaining a fixed asset below the cost of replacement.
- (c) In order to achieve the above aims, the Authority shall need accurate records of maintenance costs in order to decide:
- The amount of time and money to spend on maintenance
 - How much operating time to give up to maintenance and break-downs
 - When replacement of an asset will cost less than maintenance.

19.16 FIXED ASSETS MAINTENANCE RECORDS

The Maintenance Engineer's Records for each machine shall consist of the following:

- Machine drawings
- Performance capabilities
- Basis dimensions
- Connecting service needed
- Capacity
- Horse-power
- Original cost
- Replacement parts list by names, number
- List of accessory tools
- Transportation and handling instructions
- Operating instructions
- Repair cost record
- Overhaul cost record
- Lubrication schedules
- Manufacture's maintenance manual
- Plant/machine service card for each machine showing:
 - (i) List of all spares required for maintenance
 - (ii) Lubrication schedules
 - (iii) Inspection schedule
 - (iv) Replacement of parts schedule
 - (iv) Major overhauls schedule
 - (v) Man-hours required for each operation

19.17 PREPARATIONS FOR MAINTENANCE

- (a) In order to accomplish the objectives of maintenance, the Authority should ensure that the maintenance section is well organised and staffed with qualified and experienced persons in order to:
- Maintain an accurate plant, machines, equipment and building list
 - Provide and use proper protective
 - Clearly indicate safe working loads
 - Regularly inspect the availability and adequacy of maintenance equipments
 - Prepare and certifies job before maintenance starts.
 - Provide checklist for each machine, showing the items to be inspected daily, weekly and monthly.
 - Provide a proper maintenance schedules for each plant, machine, and equipment, showing for the coming period the following:
 - i. The maintenance work required
 - ii. Spare required for maintenance
 - iii. Persons who will do the maintenance work
 - iv. When it will be done
 - v. Tool kits to be used
 - vi. Timely prepares reports showing:
 - vii. List of items found defective during inspection
 - viii. Recommendations
 - ix. Approval
 - x. Action taken.

19.18 EVALUATION OF FIXED ASSETS

- 19.18.1 From time to time AUWSA Management will need to examine its existing fixed assets and ascertain their values. This is called fixed assets revaluation. This function should be done by a Government valuer or a registered person or firm of recognized professionals in the field of property valuation. This exercise may be done at least every after 3 years.
- 19.18.2 Valuation of land and buildings shall be on the basis of open market value with existing use. Valuation of fixed assets other than land and buildings shall be based on the current cost of replacement with appropriate deductions for years of usefulness already expired.
- 19.18.3 Where it is the entity's policy to include some or all of its fixed assets in the financial statements at revalued amounts, the charge for depreciation on such assets shall be based on the revalued amounts and the remaining useful economic lives. It is not appropriate to omit charging for depreciation of an asset on the grounds that its current market value is greater than its net carrying amount. If account is taken of such increased value by writing up the asset, then an increased charge for depreciation will become necessary. The net carrying amount of a revalued asset must not exceed the recoverable amount of that asset.
- 19.18.4 **Revaluation Surplus/Loss on Revalued Asset**
- (a) An increase in the net carrying amount of a fixed asset on revaluation (i.e. revaluation surplus) shall not be credited to profit and loss account but shall be credited directly to an appropriate capital reserve account (such as

fixed assets revaluation reserve). However, to the extent that such a revaluation surplus reverses a revaluation loss previously charged to profit and loss account, then it should be credited to profit and loss account.

- (b) A decrease in the net carrying amount of a fixed asset on account of revaluation (i.e. revaluation loss) shall be debited to the profit and loss account except to the extent that such a loss reverses a surplus previously credited to a capital reserve account and which reserve still remains, then it should be debited to such capital reserve.
- (c) Surpluses and losses arising on revaluation of individual fixed assets should not be offset against one another except within the same class of assets.
- (d) On disposal of a previously revalued fixed asset, the difference between the net disposal proceeds and the net carrying amount shall be charged / credited to the profit and loss account.

19.19 FIXED ASSETS DISPOSAL

- (a) Every fixed asset has a useful life after which it is prudent for the business to scrap it because it is no longer economical to operate. Some fixed assets are scrapped before reaching their economic useful life because of damage caused by accident, careless operations due to lack of preventive maintenance or obsolescence. Whichever reason leading to its disposal, authority of the Board of Directors is required. Normally the management initiates the disposal proposal and request for Board of Directors for authorization. Adequate justifiable reasons should be given for declaring a fixed asset obsolete or unserviceable and where possible they should be supported by professional certificates.
- (b) When the Authority's management proposes to scrap a fixed asset, it is required to fill a Fixed Asset Disposal Form.

Sale of Assets

- Every sale of the Authority's assets will have to be approved by the Board of Directors and shall be intimated to the accounts section in writing.
 - The accounts section shall, on receipt of the sale proceeds, pass necessary entries in the books and shall also record the sale in the fixed assets register without delay. Accounting entries for the sale of assets are outlined in section 18.4 of this manual.
- (c) **Retirement and Disposal of Revalued Asset**
- A fixed asset should be removed from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected to be derived from its disposal.
 - Gain or losses arising from the retirement or disposal of a fixed asset should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognized as income or expense in the Authority's profit and loss account of the period the sale took place.

- Any amount standing in the revaluation reserve shall, on retirement or disposal of the related fixed asset, be transferred to retained earnings by passing the following journal entry:

Dr. Revaluation Reserve A/c

Cr. Retained Earnings A/c

CHAPTER XX

20.0 ACCOUNTING FOR CURRENT ASSETS

20.1 A current account is unrestricted cash, or other assets held by the Authority for conversion within a relatively short period into cash or other readily convertible asset. Usually the period of conversion is one year or less, but for some items, e.g., instalment receivable, the period may be much longer.

20.2 Accounting for Current Assets

When a current asset is increased through purchase or other means of acquisition, the following journal entry shall be passed:

DR. Current Asset Account (for asset increase)

Cr. Cash/Bank Account or Creditor Account

As current assets value expires, they are transferred to expenses accounts. The use of a current asset is recorded by crediting the current asset account and debiting the corresponding expense account. For example, when water chemicals are issued to the user department, the journal entry to be passed shall be as follows:

Dr. Water Chemical Expense Account

Cr. Water Chemical Stock Account

20.3 Bad Debts Write off

The Authority's debts that are considered to be irrecoverable shall be written off after getting the Board of Director's approval.

The journal entry necessary to write off bad debts is as follow:

Dr. Bad Debts Expense A/C

Cr. Debtor's Account

If the bad debt to be written off was already provided for in the previous years, the entries will be:

DR. Provisions for Doubtful Debts A/C

CR. Debtor's Account

20.4 Doubtful Debts Provisions

A debtor's account for water or sewerage service customer should never be written off as bad debt until the amount is found to be absolutely irrecoverable and approved by the Board of Directors. Hence where the hopes of recovery are minimal the entries to be passed to record the doubtful debt shall be as follows:

Dr. Bad Debts Expenses A/C

Cr Reserve / Provision for Doubtful Debts Account

CHAPTER XXI

21.0 LIABILITIES AND OWNERS EQUITY

21.1 Liabilities are economic obligations of the Authority. It is the amount of money which the Authority owes creditors.

Current liabilities are debt obligations whose payment fall after one year. For example, a long-term loan which is repaid in periodic payments over the life of the loan, that portion of the loan payable in the year will constitute a current liability.

Owner's claim to the Authority are referred to as Owner's Equity or share Capital. This is because capital brought in by an owner of the business is looked upon as if it were a loan granted to the business. The dividend on capital paid by the business to the proprietor is thus an expense to the business and a gain to the owner.

Examples of double entries to record movements of the Authority's liabilities are as follows:

Dr. Tax Expense Account (with taxes due but not yet paid)

Cr. Tax Payable A/C (TRA)

Dr. Chemical Stock Account

Cr. Water Chemical Supplier

Dr. Bank Account (with funds provided for Long Term Loan)

Cr. Long Term Loan Account

When the Authority obtains telephone and fax services on credit and subsequently settles the obligation, the following journal entry shall be passed:

Dr Telephone and Fax Expenses Account

Cr. Tanzania Telecommunication Company Limited

Dr . Tanzania Telecom. Co.

Cr. Cash/Bank

When the Authority obtains long term loan from a Financing Company and subsequently settles the principal loan and interest on loan, the following journal entry shall be passed:

Dr Bank Account (with principal loan money received)

Cr. Financing Company Account (with the principal loan amount)

Dr. Interest on Loan Expense Account

Cr. Financing Company Account (with the amount of accrued interest)

Dr. the Financing Company Account (with principal loan and interest amount)

Cr. Bank Account (with the principal loan amount and loan interest paid).

When the physical property to the water Authority:

Dr. Acquired Asset Account

When the Authority realizes net profit and retains the net profit in the business:

Dr Income and Expenditure Account

Cr Retained Earnings (with the retained profit)

CHAPTER XXII

22.0 PROJECT ACCOUNTING

The Authority's projects are long-term construction activities such as sewer lines, water networks, storage buildings, office buildings, roads, dams, pumping stations etc.

Payment to contractors shall be made on the basis of the contractor's projects progress payment invoices supported by certificates from the architect/Consultant certifying the stage of completion of the project.

The Project Accountant shall sign and date the contractor's invoice before payment after reviewing it for consistency with the previous progress payments, checking the calculation of retention monies and deduction of advance payments. Any detected over-invoicing to be corrected by a Debit Note.

A Project Record Register shall be maintained for each project showing the following information:

- Project name
- Consultant name/Project engineer's name
- Contractor's name
- Accounts code
- Budgeted amount
- Contract starting date
- Contracted completion date
- Retention money
- Advance payment
- Date of each invoice
- Reference number of each invoice
- Date of each Architect/Consultant certificate
- Details of the progress payment such as, down payment, consultant's fee, percentage completion payment
- Percentage of the Project's completion stage
- Amount of the Retention Money
- Net amount payable
- Cumulative total payment
- Cheque date and number
- Payment voucher reference.

When the project is completed, an Architect's/Consultant's completion certificate and a handing-over certificate will be received by the Authority. The accounts section will then open a Fixed Asset Account and pass a journal entry, transferring the total value of the project as accumulated by the project's record card and the appropriate fixed assets card will be opened in the fixed assets register. An appropriate insurance cover will be taken to cover the value of the completed asset.

CHAPTER XXIII

23.0 ANNUAL ACCOUNTS

23.1 PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Preparation of financial statement of the Authority will involve preparation of the following accounting documents:

- Trial balance
- Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

23.2 THE TRIAL BALANCE

The Trial Balance is a list of total debits and total credits of the accounts in a general ledger/other ledgers, the purpose being to determine the equality of posted debits and credits and to establish a basic summary for financial statements preparation. This is because, since accounts are debited and credited with like amounts to give effect to the double aspect of every transaction, it follows that the total of the debit entries must equal in amounts to the total of credit entries. It also follows as a corollary that the total debit balances must equal the total credit balances.

23.2.1 Benefits

The agreement of the Trial Balance provides a very useful check upon the Ledger postings. It proves that:

- The debits and credits aspects of each accounting transaction are recorded.
- The books of accounts are arithmetically accurate and;
- Provides information for use in preparing financial statements

23.3 PREPARATION OF TRIAL BALANCE

A Trial Balance is usually prepared on loose sheet ruled in a form similar to that of the Journal, i.e. with debit and credit money columns side by side. Each account is given a line, and the name of the account is written in the particulars column. The date column is used for entering the folio or page of the ledger in which account appears. The first money column is used for entering the total of the debit side of each Ledger Account, and the second column for the total of the credit total will equal the credit total.

An important point to be borne in mind in the preparation of the Trial Balance is to include the cash balance and the bank balance as indicated by the cash and bank columns of the Cash Book. The reason is that these columns represent cash and bank accounts, and it is only for convenience that cash transactions are recorded in a separate book instead of being entered in the shape of Ledger Accounts.

23.3.1 ERRORS THAT DO NOT AFFECT THE BALANCING OF THE TRIAL BALANCE

Remember that the Trial Balance serves to prove only the arithmetic accuracy of the books of accounts, there are several errors which may exist and may remain undisclosed in spite of the agreement of the Trial Balance. The following errors will remain undetected and will not affect the agreement of the Trial Balance:

- a) **Errors of omission.**
An error of omission is one where a transaction has been absolutely omitted to be recorded, i.e. a credit purchase omitted to be recorded in the Purchase Book, or an item of returns inwards omitted to be recorded in the Returns Inwards Book.
- b) **Wrong entries in any original record.**
This occurs where a transaction has been wrongly entered in a Subsidiary Book. Thus, a credit sale of TZS 7,750/= may have been entered in the Day Book as TZS 750/=.
- c) **Errors of principle**
An error of principle is one where a transaction is recorded in total disregard of the fundamental principle of double entry. Thus, repairs to building may have been wrongly debited to the Building Account.
- d) **Compensating errors**
A compensating error in book keeping is an error on one side of an account which is balanced by an error or a series of errors in the aggregate of the same value, in opposite direction. Thus, if the Purchase Book is under-cast by TZS 10,000/= and the Sales Book is also under-cast to the extent of the same amount, this will not affect the agreement of the Trial Balance.
- e) **Posting to wrong heads of the accounts**
Such errors will arise where an amount is wrongly posted to one account instead of to another. Thus, a sale of TZS 15,000/= to Mudigo may have been wrongly debited to Mdogo from the Day Book. Such an error will not prevent the Trial Balance from agreeing in as much as the amount of TZS 15,000/= is there on the debit side just the same, and the Trial Balance only proves that the books are arithmetically correct.

22.3.2 ERRORS DICLOSED BY TRIAL BALANCE

The agreement of the Trial Balance will be affected by the presence of any of the following errors:

- Omission to post an entry from any subsidiary record
- Posting a wrong amount to a ledger account
- Posting an amount on the wrong side of a ledger accounts
- Errors in casting subsidiary records or ledger accounts
- Errors in balancing any ledger accounts
- Omission of a balance of any account in the Trial Balance.

23.4 THE FINANCIAL STATMENTS

Accounting is the process of identifying, measuring, recording, classifying, summarizing and communicating the economic results data/information to the stakeholders. The stakeholders of the Authority are the management, employees, investors, creditors, debtors, suppliers, financial institutions, potential investors, the Government and the general public.

Financial Statements are the end products of the business transactions of a business entity in the form of:

- Income and Expenditure Statement which displays the profitability of an entity over a specified period of time.
- The Balance sheet which shows a snap shot of the position of the business; and

- The Cash Flow Statement which shows the sources and application of cash in the business during the accounting period in question.

23.5 INCOME AND EXPENDITURE ACCOUNT

The Income and Expenditure Statement shall shows all the income and expenditures which occurred during the accounting year.

The Authority's income will be collected based on the accrual accounting principle from:

- Sale of clean and safe water and its related services
- Sewerage services,
- Gains from sale of fixed assets,
- Earnings from interest resulting from investments of surplus cash
- House rent
- Subvention from the Government
- Hiring of machinery and equipment to government and general public
- Other services rendered by the Authority

Under the matching concept, the expenditures that were responsible for the generation of the above revenue would be included. At the end of the year accrued but not received revenue, or expenses due but not yet paid shall be recognized by means of adjusting entries. The format of an Revenue and Expenditures will be as follows:

ARUSHA URBAN WATER SUPPLY AND SEWERAGE AUTHORITY INCOME AND EXPENDITURE FOR THE YEAR ENDING.....

	Notes	TZS
INCOME		
LESS: DIRECT EXPENDITURE		
GROSS SURPLUS		
OTHER INCOME		
GROSS INCOME		
LESS: OPERATING EXPENSES		
Administration Expenses		
Personnel Expenses		
Financial Expenses		
Board of Directors Emoluments		
Board Meeting Expenses		
Audit Fees		
Depreciation		
TOTAL OPERATING EXPENSES		
NET SURPLUS/(DEFICIT)		

The notes to the accounts will show how the deferent figures against the expenses were arrived at, depreciation expenses as computed in the Fixed Assets Schedule.

BALANCE SHEET

After preparing the income and Expenditure the remaining account balances in the Trial Balance will now be used to prepare the Authority's Balance Sheet, which shows all the equity and all assets owned and liabilities owed to various parties.

The format of the Balance Sheet is as follows:

**ARUSHA URBAN WATER SUPPLY AND SEWERAGE AUTHORITY
BALANCE SHEET AS AT.....**

NOTES

TZS

ASSETS EMPLOYED:

FIXED ASSETS (NET)
WATER SUPPLY REHABILITATION PROJECT
ACCESS ACCOUNTING SOFTWARE

CURRENT ASSETS:

Stocks and Stores
Debtors and Prepayments
Cash and bank Balances

LESS: CURRENT LIABILITIES:

Creditors and Accrued Charges
Bank Overdraft

NET CURRENT ASSETS/(LIABILITIES)**TOTAL****FINANCED BY:**

CONTRIBUTION TOWARDS SHARE CAPITAL
GRANTS
REVALUATION RESERVE
ACCUMULATED SURPLUS/DEFICIT) ACCOUNT

TOTAL**Notes to the Accounts:**

Notes to the Accounts is a set of information prepared for the user of the financial statements informing him/her of the accounting principles, and concepts, and schedules incorporated in the preparation of the final accounts. In essence the notes will explain the following:

- The specification of the accounting period
- The method of accounting used
- The method of revaluation of assets and investments
- The rates of depreciation on various assets
- The fixed assets schedule showing how the depreciation expenses were arrived at.
- The method at which the accrued revenue or expenses were arrived at
- The method at which the written off expenses were arrived at

THE CASH FLOW STATEMENT

In measuring the performance of the Authority it is advisable not to look at profits only but at the cash flow as well. This is because a business may be making large profits, but might not have available cash to meet its maturing liabilities. The Cash Flow records all activities that have an influence on the source and application of cash in an organization. A typical format for a Cash Flow Statement is as follows:

**ARUSHA URBAN WATER SUPPLY AND SEWERAGE AUTHORITY
CASH FLOW STATEMENT FOR THE YEAR ENDED....**

CASH FLOWS FROM OPERATING ACTIVITIES

Net Surplus/(Deficit) for the Year

Adjustment for Items not involving Movement of Cash

Prior Year's Adjustment

Grants Amortized

Depreciation

**OPERATING SURPLUS/(DEFICIT) BEFORE WORKING CAPITAL
CHARGES**

Changes in Level of Working Capital Items:

Decrease/Increase in Stocks and Stores

Decrease/(Increase) in Debtors and Prepayments

Increase/(Decrease) in Creditors Accrues Charges

NET CHANGES IN WORKING CAPITAL ITEMS

NET CASH FLOWS FROM OPERATING ACTIVITIES**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisition of fixed Assets

Water Supply Rehabilitation Project

Access Accounting Software

NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES

NET CASH FLOWS BEFORE FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Grants

NET CASH IN/(OUT) FLOWS DURING THE YEAR

Add: Cash and Cash Equivalent at the Beginning of the Year

CASH AND CASH EQUIVALENT AT THE END OF THE YEAR

PART XXIII

23.0 ACCOUNTING FOR BORROWING

23.1 Purpose

This part describes the procedures which must be entered into should the Authority needs to borrow to finance its activities.

The Authority may need funds in order to acquire large assets for use in the business or for resale but may not have sufficient funds to acquire it.

The Finance and Administration Manager maintains a register showing details of all loans raised by the Government and other forms of public debt. The register shows in respect of each item of public debt its term and designation, the amount raised in local currency and also, if appropriate, the currency of issue, the authority under which the loan was raised or the debt incurred, the terms on which it was issued, including the rate of interest, the dates on which payments of interest are due, the date of redemption and the sinking fund contributions (if any).

Main areas to be considered under this section are:

- Scope
- Accounting treatment
- Disclosure
- Accounting entries

23.2 Scope

The objective of the scope is to prescribe the borrowing costs. Borrowing costs are interest and other costs incurred by the Authority in connection with the borrowing of funds. They include:

- Interest on bank overdraft and borrowings
- Amortisation of discounts or premiums on borrowings,
- Amortisation of ancillary costs incurred in the arrangement of borrowings
- Finance charges on finance leases and exchange differences on foreign borrowings where they are regarded as an adjustment to interest costs

Borrowing costs do not include actual or imputed cost of equity capital including any preferred capital not classified as a liability.

Capitalisation of borrowing costs should commence when the following are in place:

- Expenditures for the asset and borrowing costs are being incurred.
- Activities necessary to prepare the asset for its intended use or sale are in progress.
- Borrowing cost is being incurred.

Capitalisation of borrowing costs ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation should be suspended. Where construction occurs piecemeal

and use of each part is possible as construction continues, capitalisation for each part should cease on substantial completion of that part.

For borrowing associated with a specific asset, the actual rate on that borrowing should be used (adjusted for any temporary investment income). Otherwise, a weighted average capitalisation rate should be used. Total borrowing costs capitalised in a period should not exceed the borrowing costs incurred in that period.

23.3 Amount of Interest to be Capitalised

The amount of interest to be capitalised is the lesser of the avoidable interest and the actual interest incurred.

23.4 Accounting Treatment

23.4.1 Benchmark Treatment

Borrowing costs should be recognised as an expense in the period in which they are incurred regardless of how the borrowing was applied except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying asset.

23.4.2 The Duration of Capitalisation

The capitalisation of borrowing costs as part of the costs of a qualifying asset should commence when:

- Expenditures for the asset are being incurred
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

23.4.3 Suspension of Capitalisation

Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted.

23.4.4 Cessation of Capitalisation

Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed. An asset is normally ready for its intended use or sale when the physical construction of the asset is completed even though routine administrative work may still continue. If minor modifications, such as the decoration of a property to the purchaser or user's specification are all that are outstanding, this indicates substantially all the activities are complete.

When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

23.4.5 Loan Repayment

Loan repayments are contractual obligations, which must be met according to agreed repayment schedules.

A schedule and calendar for loan repayments shall be maintained so that payment can be made on the due dates in order to avoid default or delays that may attract interest charges or penalty. A copy of loan repayment schedule should be kept at the Parent Ministry.

23.4.6 Disclosure

Only one capitalisation rate can be used by the Authority for all qualifying assets. However, different rates can be used for different assets, as appropriate in the particular circumstances. The following disclosure are required by law:

- The accounting policy for borrowing costs
- The total borrowing costs incurred during the period
- The amount of the borrowing costs capitalised during the period
- The capitalisation rate used to determine the amount of borrowing costs eligible of capitalisation.

In addition the Authority will disclose the amount of borrowing costs capitalised during the period under the following headings:

- Property, plant and equipment and where significant each class of property, plant and equipment.
- Investment property
- Stocks and work in progress
- Other qualifying assets

23.5 Accounting entries

23.5.1 Receipt of Loan

Loan proceeds received by the Authority are classified as long-term debt. When the loan funds are received the liability is accounted for in the Long-Term Debt Account.

23.5.2 Recording the receipt

Dr. Bank account

CR Loan Account

If the loan was spent on purchase of assets, the entries will be:

Dr. Asset A/C

Cr. Bank Account

At the end of the accounting period the amount of interest to be recognised, payable and capitalised as described in the preceding paragraphs is computed and the following entries will be passed:

Interest recognition

Dr. Interest Expense Account

Cr. Interest Payable Account

Interest Payment

Dr. Interest Payable A/C
Cr. Bank Account

Interest Capitalisation

Dr. Asset Account
Cr. Interest Expense Account - (with portion of the interest capitalised to asset account,)

Transfer of Loan portion that is current liability into short term loan account

Dr. Loan Account
Cr. Short Term Loan Account

Recording of loan repayment (principle amount)

Dr. Short Term Loan Account
Cr. Bank Account

23.5.3 Recording Interest Earned on Loan

Any interest earned as a result of investing part of the loan proceeds is recorded as interest on Investments (revenue account) in the same fund in which the proceeds were recorded. The interest earned must be used for the same types of expenditures that are approved in your loan application form. The entries will be:-

Dr. Bank Account
Cr. Interest on Investment

APPENDIX B

ARUSHA URBAN WATER SUPPLY AND SEWERAGE AUTHORITY	
ACCOUNT CODES	
ITEM	DESCRIPTION
100	Income
101	Water Consumption
102	Sewerage Disposal Charges
103	New Sewer Connection Fees
104	New Water Connection Fees
105	Water Reconnection Fees
106	Revenue on Material/Service Rendered
107	Meter Rent Fees
108	Miscellaneous (Water Meter Deposit)
109	Government Grants (Local Component)
111	Other Income
112	Bank Interest
113	Gain on Foreign Exchange
200	Water Production Expenses
201	Electricity for Pumps
202	Water Chemicals
203	Fuel and Lubricants (Generator)
204	Water User Fee
205	Laboratory
210	Water Distribution Expenses
211	Pipes and Fittings
212	Customer Survey
213	Water meter Installation
214	New Water connections
220	Sewerage Disposal Expense
221	Sewers and Manhole
222	Customer Survey
223	Ponds Expenses
224	Laboratory
230	Maintenance and Repair Expenses
231	Upkeep of Production and Infrastructure
232	Pipes and Fittings
233	Upkeep of Building
234	Plant Craft and Heavy Equipment
235	Motor Vehicles & Cycles (Spare Parts)
236	Motor Vehicles & Cycles (Fuel)
237	Upkeep of Sewerage Infrastructure
240	Personnel Expenses
241	Basic Salaries
242	Gratuity

243	Employer's PPF/NSSF Contr.
244	House Allowance
245	Wages
246	OT/Lunch Allowance
247	Traveling on Leave
248	Payroll levy
249	Skills and Development Levy
250	Medical
251	Hardship Allowance
252	Responsibility Allowance
253	Acting Allowance
254	Reimbursement of Fuel Expenses
255	Transport Allowance
256	Extra Duty Allowance
257	Motisha (Bonus)
260	Administration Expenses
261	Land Rent and Rates
262	Postage
263	Telephone
264	E-Mail
265	Hand Set (Mobile Phone)
266	Insurance
267	Office and General
268	Fumigation
269	Fire Fighting Equipment
270	Training
271	Outfit Allowance
272	Examination Course Fees
273	Traveling on Duty
274	Board Meetings
275	Computer
276	Uniforms
277	Electricity for Office
278	Workers Council
279	Management Meetings
280	Function All Workers
281	Burial
282	Miscellaneous /Contingencies
283	Compensation
284	Stamp Duty
285	Organization Manuals
286	Tax Penalties
287	AUWSA Tender Board Expenses
288	Service Delivery Target Cost - CCO
289	Service Delivery Target Cost – PAO
290	Business Promotion Expenses

291	Public Relation and Advertisement
292	News Paper and Periodicals
293	National Monument Roundabout
294	Board Meeting and Mission
295	Managing Director
296	Board Chairman
297	Technical Manager
298	Finance and Administrative Manager
299	Commercial Manager
300	Charity/Subscription/Donations
301	AWEC
302	Maji Week
303	May Day
304	National Budget Session
305	Other Donation
306	5 Yrs AUWSA Anniversary
310	Fees
311	Professional Fees
312	Audit Fees
313	Legal Fees
314	Directors Fees
320	Finance Expenses
321	Bank Charges
322	Loan Interest
330	Depreciation
331	Provision for Doubtful Debts
332	Depreciation
400	Cash and Bank Balances
401	Petty Cash
402	Expenditure Account - NBC (1997)
403	Revenue Account - NBC (1997)
404	Foreign Account Standard Chartered Band
405	CRDB. Revenue Account
406	CRDB. Expenditure Account
410	Stocks and Stores
411	Pipes and Fittings
412	Electrical Fittings
413	Spare parts
414	Chemicals
415	Oil, fuel and lubricants
416	Stationery
417	Other Consumables
418	Computers and other Accessories
419	Building Materials

420	Debtors and Prepayments
421	Staff Loan (SACCOS)
422	Staff Imprest
423	Staff Loan
424	Debtors -Water Cons. Sew, Disp. & M/Rent Fees.
427	Other Debtors
428	Prepayments
	Other Trade Debtors
	Provision for Doubtful Debts
430	Fixed Assets
431	Furniture, Fittings and Office Equipments
432	Water pumps and Electrical Equipments
433	Workshop/ Lab. Equipments and tools
434	Motor Vehicles
435	Mobile Machinery and Equipments
436	Computers and other equipments
437	Leasehold Land and Buildings
438	Distribution Network (Pipes and Fittings)
439	Sewerage Network
440	Water Borehole
441	Water Supply Local Contribution
442	Water Supply Compensation
443	Sludge Removal (sewerage Network)
444	WIP Ilkilorit Borehole
445	Access Accounting/Accounting Software
446	Nduruma Mlala (WIP)
450	Accumulated depreciation
451	Furniture, Fittings and Office Equipments
452	Water Pumps and Electrical Equipments
453	Workshop equipments and tools
454	Motor Vehicles
455	Mobile Machine and Equipments
456	Computers and other equipments
457	Leasehold Land and Buildings
458	Distribution Network (Pipes and Fittings)
459	Sewerage Network
460	Water Borehole
470	Liabilities
471	Provision for Accruals
472	Water Meter Deposit
473	Other Creditors
483	Retained Surplus
485	Grants
486	Contribution Towards Shareholders
487	Revaluation Reserve

488	Prior Year Adjustment
474	Net Pay Clearing Account
475	Bonus Clearing Account
476	Insurance Clearing Account
477	TUICO Clearing Account
478	PAYE Clearing Account
479	PPF/NSSF Clearing Account
480	AUWSA SACCOS Contribution Clearing Account
481	AUWSA SACCOS Loan Recovery
482	Kurugenzi Loan/Contribution
484	Overtime Clearing Account