

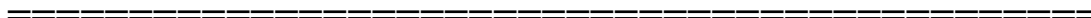


REPUBLIC OF KENYA



Ministry of Education

Global Partnership for Education (GPE)



**FINANCIAL MANAGEMENT
PROCEDURES MANUAL**

For the

PRIMARY EDUCATION DEVELOPMENT PROJECT



20 August 2016

Table of Content

	Page
ABBREVIATIONS AND ACRONYMS.....	1
1.0 PROJECT INTRODUCTION	3
1.1 Background.....	3
1.2 Project Development Objective and Beneficiaries.....	5
1.3 Summary of Project Components and Financing.....	6
1.4 Summary of Project Implementation Arrangements.....	7
1.5 Purpose and Scope of the Manual	8
1.6 Objectives of the Manual.....	8
1.7 Basis of the Manual	9
1.8 Structure of the Manual	10
1.9 Update/Amendment of the Manual	10
1.10 Non-Compliance with the Manual.....	10
2.0 PROJECT INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS.....	11
2.1 Key Fiduciary Responsibilities.....	11
2.2 Key FM Implementation Responsibilities.....	12
2.2.1 Role of the Project Coordination Unit.....	12
2.2.2 Role of TSC and KNEC.....	13
2.2.3 Role of County Project Committee.....	14
2.2.4 Role of Boards of Management and Primary School Heads	14
2.3 Project Fiduciary Staffing.....	15
3.0 PROJECT PLANNING AND BUDGETING	16
3.1 Annual Work Planning and Budgeting.....	16
3.2 Budgeting under A-in-A and Revenue Modes	16
3.3 Planning and Budgeting Cycle	17
3.4 Budget Execution Monitoring	18
3.5 Budget Amendments	18
4.0 PROJECT FUNDS FLOW AND DISBURSEMENT MANAGEMENT.....	19
4.1 General Overview.....	19
4.2 Overview of Project Accounts.....	19
4.3 Project Disbursement Methods.....	20
4.4 Project Funds Flow Diagram.....	21
4.5 Operation of Main Project Account.....	21
4.6 Operation of TSC Project Account.....	22
4.7 Operation of KNEC Project Account	22
4.8 Operation of County Project Accounts.....	23
4.9 Operation of School Project Accounts	23
5.0 PROJECT ACCOUNTING ARRANGEMENTS	25
5.1 Project Accounting System and Responsibilities	25
5.2 Staffing Capacity of the Accounting Units.....	26
5.3 Vote Book Expenditure Control.....	26
5.4 Accounting Documents and Reports	26
5.5 Filing of Accounting Documents	27
5.6 Project Operational Costs	27
5.7 Potential Ineligible Expenditures and Consequences.....	28
5.8 Foreign Exchange Differences	29

6.0	PROJECT INTERNAL CONTROL, INCLUDING INTERNAL AUDIT	31
6.1	Overview of Internal Control	31
6.2	Approval and Authorisation of Expenditure	32
6.2.1	Expenditure at MOE PCU	32
6.2.2	Expenditure at TSC and KNEC	32
6.2.3	Expenditure at Participating Counties	33
6.2.4	Expenditure at Beneficiary Primary Schools.....	33
6.3	Operation of Bank Accounts	33
6.4	Operation of Petty Cash Floats.....	35
6.5	Operation of Temporary Imprests	37
6.6	Project Allowances and Per Diems	38
6.7	Control over Stock/Inventory	39
6.8	Control over Fixed Assets	40
6.9	Project Internal Audit and Oversight.....	41
6.9.1	National Level Internal Audit and Oversight	41
6.9.2	County Level Internal Audit and Oversight	42
6.9.3	School Level Internal Audit and Oversight	43
7.0	PROJECT FINANCIAL REPORTING ARRANGEMENTS	45
7.1	Overview of Financial Reporting	45
7.2	In-Year Financial Reports	45
7.3	End-Year Financial Reports	47
8.0	PROJECT EXTERNAL AUDIT ARRANGEMENTS	49
8.1	Auditors and Audit Report	49
8.2	Objectives of the Audit.....	49
8.3	Scope of the Audit	49
8.4	Auditors' Management Letter	51
8.5	Important Documents for Audit	52

ABBREVIATIONS AND ACRONYMS

AIE	Authority to Incur Expenditure
A-in-A	Appropriation in Aid
ASAL	Arid and Semi-Arid Land
ASALs	Arid and Semi-Arid Lands
BOM	Board of Management
CBK	Central Bank of Kenya
CDE	County Director of Education
CEMASTEА	Centre for Mathematics, Science and Technology Education in Africa
CEO	Chief Executive Officer
CRA	Commission for Revenue Allocation
CRV	Counter Receipt Voucher
DA	Designated Account
EFT	Electronic Funds Transfer
EMIS	Education Management Information System
ERS	External Resource Section
FAR	Fixed Assets Register
FM	Financial Management
FPE	Free Primary Education
GER	Gross Enrolment Rate
GOK	Government of Kenya
GPE	Global Partnership for Education
HAU	Head of Accounting Unit
IAD	Internal Audit Department
ICB	International Competitive Bidding
ICT	Information and Communication Technology
IDA	International Development Association
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Report
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KEMI	Kenya Education Management Institute
KENAO	Kenya National Audit Office
KESSP	Kenya Education Sector Support Program
KICD	Kenya Institute for Curriculum Development
KNEC	Kenya National Examinations Council
KSG	Kenya School of Government
KSG-eLDi	Kenya School of Government e-Learning and Development Centre

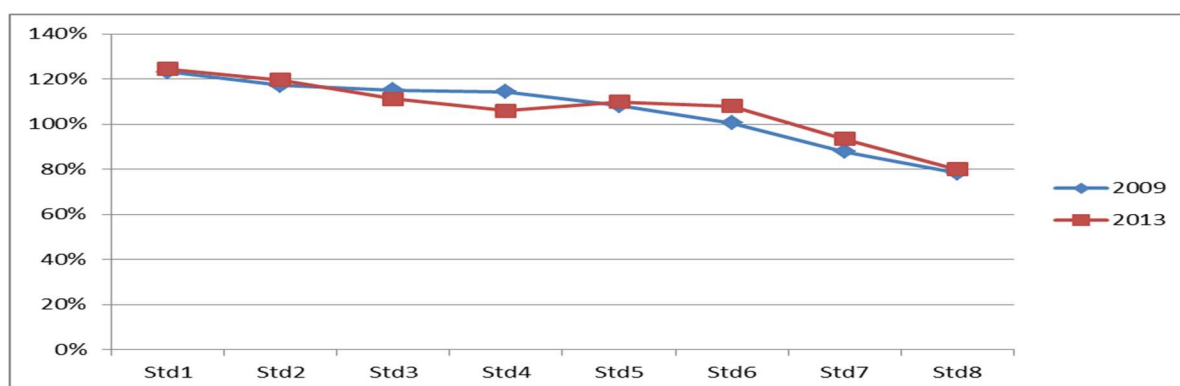
Kshs	Kenyan Shillings
LPO	Local Purchase Order
LSO	Local Service Order
M	Million
MDG	Millennium Development Goals
MOE	Ministry of Education, Science and Technology
MPC	Ministerial Procurement Committee
MTC	Ministerial Tender Committee
MTP	Medium-Term Plan
NCB	National Competitive Bidding
NESP	National Education Sector Plan
NER	Net Enrolment Rate
O&M	Operations and Maintenance
PAC	Principal Accounts Controller
PAD	Project Appraisal Document
PCU	Project Coordination Unit
PDO	Project Development Objective
PFSs	Project Financial Statements
POC	Project Oversight Committee
PPDA	Public Procurement and Disposal Act 2005
PPDR	Public Procurement and Disposal Regulations 2006
PPOA	Public Procurement Oversight Authority
PS	Principal Secretary
SA	Social Accountability
SACMEQ	Southern Africa Consortium for Monitoring Educational Quality
SCOA	Standard Chart of Accounts
SMC	School Management Committee
SOE	Statement of Expenditures
TAC	Teacher Advisory Centre
TAD	Teacher Appraisal and Development
TORs	Terms of Reference
TSC	Teachers Service Commission
TSA	Treasury Single Account
UNDP	United Nations Development Programme
US\$/USD	United States Dollars
WA	Withdrawal Application
WB	World Bank

1.0 PROJECT INTRODUCTION

1.1 Background

1. **Kenya puts human resource development, particularly education at the centre of its development strategy**, since, despite notable improvements, Kenyans, particularly the poor, still face challenges in getting adequate public services including education and health. Kenya's Vision 2030 and the related Medium Term Plan (MTP) strive to develop a globally competitive quality education, training and research for sustainable development. The social pillar of Vision 2030 has at its core 'investing in the people of Kenya' with a focus on health, education, children, youth and sports, among other welfare improving programs. This includes government's commitment to address access, equity, quality, and relevance of social service delivery, as well as putting great emphasis on the links between education and training, technology and entrepreneurial skill development and the labour market. Vision 2030 targets the creation of 3.5 M jobs and a reduction in the poverty incidence from 46% in 2005 to 28% in 2030, and an increase in the human development index from 0.47 in 2005 to 0.7 in 2030. It places great emphasis on education, as the primary means of upward social mobility, national cohesion and socioeconomic development.
2. **Kenya has made good overall progress in expanding access to education with the introduction of Free Primary Education (FPE) in 2003.** The enrolment in primary education increased from 8.56 M in 2008 to 9.99 M in 2012 with 4.97 M and 5.03 M girls and boys respectively. Primary education enrolment grew at 3.2% and secondary education at 9% annually from 2009 to 2013. The gross enrolment rate (GER) was 115.8% in 2012, and the net enrolment rate (NER) was 95.3% in 2012 based on Ministry of Education Science and Technology (MOE) administrative data. Figure 1 presents the national schooling profile in primary education. Despite a slight drop between Standard 1 and 4, Kenya maintains high retention rates up to Standard 6, but experiences significant drop-out rates in Standard 7 and 8. The completion rate for primary schooling is estimated at 76% (2012).

Figure 1: Primary Education Schooling Profile



Source: UNICEF estimates based on Economic Survey 2014

3. **Institutional arrangements in the education sector are changing with the implementation of the Constitution of Kenya 2010.** County governments are now responsible for providing early childhood education and running village polytechnics, while at the national level the Ministry of Education,

Science and Technology (MOE) retains responsibility for education policy, standards, curricula, examinations and the granting of university charters. It also provides basic education, and manages public universities and other institutions of research and higher learning. The Teachers Service Commission (TSC) no longer reports to the MOE, but now operates as an autonomous government agency. In the past TSC was responsible for teacher management and the MOE for teacher professional development, but this delineation is no longer as clear cut.

4. **Persisting inequality in education outcomes.** While the growth of the private sector has potentially helped reduce the strain on public resources, it also poses the risk of increasing socio-economic stratification between schools. Kenya has already had a long streak of regional disparities in learning outcomes. Primary completion rates, along with those for enrolment, are much lower in the arid/semi-arid land areas, and other vulnerable areas in coastal regions and urban slums. National and regional assessments including National Systems for Monitoring Learning Achievements (NASMLA) and Southern Africa Consortium for Monitoring Educational Quality (SACMEQ) consistently reveal North-eastern and Western regions as underperformers over the years (KNEC 2011, 2012). Results from UWEZO¹ assessment in 2011 show that in order of rank, counties in arid areas occupy the bottom 5 positions. At the household level, children from poorer households systematically achieve lower competency levels, on all tests and across all ages (UWEZO 2012, 2013). The top performers in Kenya Certificate of Primary Education (KCPE) have also traditionally been dominated by pupils from high-cost private schools (KNEC 2011-13).
5. **Vulnerable and Marginalized Groups.** It is estimated that Kenya has 2 M out-of-school children in basic education. These include children with disabilities and children from internally displaced and hard to reach population. Close to 60% of the out-of-school children are found in the hard-to-reach and hard-to-stay counties. There are 14 Arid and Semi-Arid Land (ASAL) counties identified by the Commission on Revenue Allocation (CRA) that are mainly occupied by hunters and gatherers and pastoralists who have not fully benefited from formal education because of their life style that necessitates mobility. Apart from the low enrolment, these areas are also characterized by high school dropout, early marriages of girls, inadequate teachers, poor road and other public infrastructure, inadequate hospitals (life expectancy is estimated at 42 years), and very low annual rainfall (less than 200mm). Unless special efforts are made to reach these communities, they will continue to lag behind.
6. **The Kenya National Education Sector Plan (NESP) 2013-2018 focuses on improving the quality of primary education,** through: (i) improvement of schooling outcomes and impact of sector investment; (ii) development of relevant skills; (iii) improved learning outcomes; and (iv) improved efficiency and effectiveness in use of available resources. The GPE financed project, taking on two result areas of improving early grade learning competencies and strengthening the delivery systems, responds directly to all the NESP target areas. The sector plan as set out in NESP emphasizes a holistic and balanced development of the entire education sector. The NESP Implementation Plan focuses on the urgent need to enrol all students in basic education, raise literacy and numeracy levels, reduce existing disparities, and improve the quality of education with a focus on teacher quality, school level

¹ UWEZO means “Capability” in Kiswahili, an initiative to monitor competencies in literacy and numeracy of children of 6 to 16 years of age in Kenya, Tanzania and Uganda.

leadership, more effective applications of teacher training in the classroom, increasing resources to the education sector, targeting improvements, and monitoring key results. The overarching goal of NESP is to enhance quality of basic education for Kenya's sustainable development. The NESP identifies six priority investment areas. These are: (i) sector governance and accountability; (ii) access to free and compulsory basic education; (iii) education quality; (iv) equity and inclusion; relevance; and (v) social competencies and values.

7. The proposed Global Partnership for Education (GPE) project has been conceived to support selected key strategy elements of the NESP. Specifically, the GPE project will contribute to:

- a) Improving early grade learning competencies by focusing on the scaling up of the Early Grade Mathematics intervention piloted under PRIMR. The decision to scale up is based on encouraging evidence from rigorous impact evaluations of the pilot.
- b) Strengthening systems (at school and national levels) for improving primary education service delivery. It is expected that well-functioning school management committees (comprising the head teacher, parents and other key stakeholders) will be able to mobilize and/or utilize resources effectively to improve learning conditions through notably; measures to reduce teacher and student absenteeism, thereby increasing teacher-student contact time in the classroom. Significant improvement in student learning was observed in schools where such measures were applied and have emerged from a participatory decision making process, and accountability for the use of resources strengthened through oversight by community stakeholders (village elders, parents, and students). In this component, schools serving vulnerable groups will deliberately be targeted for the project interventions.

1.2 Project Development Objective and Beneficiaries

1. The project development objectives are to improve early grade mathematics competency and to strengthen management systems at school and national levels.
2. The project beneficiaries are:
 - a) 6 M pupils in Grade 1 and 2 who will benefit from improved early grade mathematics textbooks;
 - b) 40,000 teachers who will benefit from new methodologies of early grade mathematics instruction through improved in-service training and regular pedagogical supervision and support;
 - c) 1.3 M pupils in participating schools who will benefit from more effective and present teachers as well as improved teaching-learning inputs;
 - d) Head teachers and School Management Committee/Boards of Management who will receive guidance and support in school improvement planning and be empowered to implement plans to improve their school performance;
 - e) Parents and Communities whose aspirations will be met through greater information and enhanced voice in school management for improving quality of education; and

- f) Education system administrators who will benefit from improved information and accountability through up to date EMIS data and school audits.

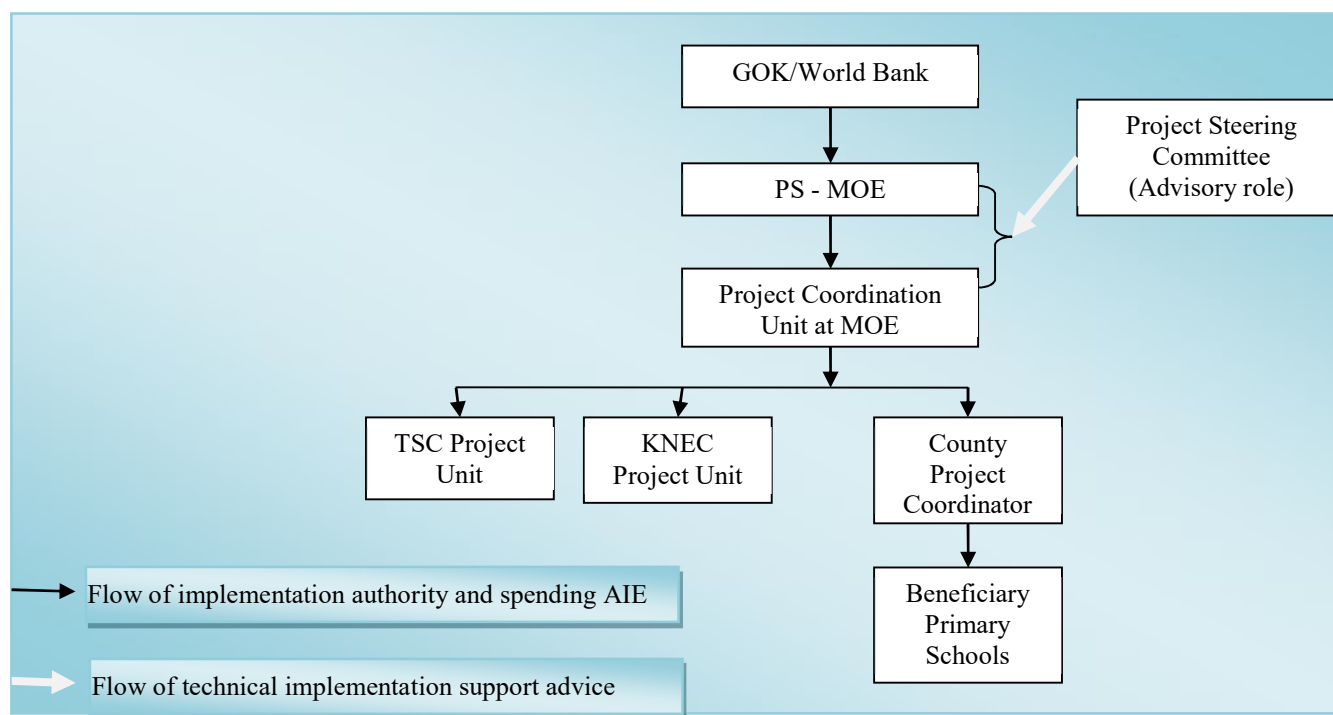
1.3 Summary of Project Components and Financing

1. The project has four components under which the World Bank will disburse GPE funds to support implementation activities.
2. **Component one** of the Project is dedicated to improving the foundations of learning by enhancing early grade mathematics competencies – thereby complementing efforts of the GOK through the TUSOME (*Let's Read!*) initiative to improve early grade reading. Both initiatives together will go a long way to lay the foundation of enhancing the quality of basic education, the overarching goal of the NESP. The focus of the scale up is on schools located in rural areas, pockets of urban poverty and ASAL counties, which tend to be those performing poorly in mathematics. These schools are estimated to comprise about 75% of all public primary schools in Kenya. In addition, EGM materials (textbooks and teacher guides) will be made available to all 23,000 public primary schools, benefiting their students, teachers, and head teachers.
3. **Component two** of the PRIEDE Project aims at strengthening management and accountability at school level thus contributing to the NESP priority (i). Component 2 will be a pilot to improve school performance through strengthened school management and accountability for results in the delivery of primary education. The pilot targets low performing schools (i.e. those schools whose KCPE scores in 2012 and 2013 were below the average of 242 for public primary schools), in each county and ASAL counties in particular. About 4,000 schools have been randomly selected to be the participating or 'treatment' schools that will benefit from an integrated set of interventions whose impact can be rigorously evaluated at the end of project implementation.
4. **Component three** of the PRIEDE project will strengthen capacity for evidence-based education sector policy development at the national level.
5. **Component four** covers project coordination, communication, monitoring and evaluation.
6. The project is 100% funded by IDA/GPE resources to the tune of US\$.88.4 M. The table below provides a summary of the funding for the main components and sub-components of the project. Greater details of the components and sub-components can be obtained from the project documents.

Project Component	Project cost (US\$ M)	IDA/GPE Financing
Comp 1: Improving early grade mathematics competencies	34.5	34.5
Comp 2: Strengthening school management & accountability	38.8	38.8
Comp 3: Building capacity for policy development	10.8	10.8
Comp 4: Project coordination, communication monitoring & evaluation	4.3	4.3
Total	88.4	88.4

1.4 Summary of Project Implementation Arrangements

1. The PRIEDE Project has five principal levels of implementation and implementing entities at national and school levels. These are:
 - a) MOE at national level;
 - b) TSC at national level;
 - c) KNEC at national level;
 - d) County Education Offices; and
 - e) Beneficiary Primary Schools.
2. The primary responsibility for overall project management and accountability rests with the MOE through the Project Coordination Unit (PCU) based at MOE Headquarters in Nairobi. The PCU will have dedicated functions including procurement and financial management, carried out by full-time personnel contracted by MOE.
3. The Teachers Service Commission (TSC) will be responsible for the implementation of the teacher appraisal process at the school level.
4. The Kenya National Examinations Council (KNEC) will be responsible for the analysis of the KCPE results and the implementation of the national assessments of Grade 2 in mathematics and Grade 3 in core subjects as well as the dissemination of SACMEQ IV results.
5. A Project Steering Committee (PSC) led by the MOE Principal Secretary and consisting of the TSC and KNEC Chief Executives will be responsible for overseeing the progress and effectiveness of the project interventions
6. The figure below illustrates the high-level institutional and implementation arrangements for the project.



7. In order to ensure close coordination with the executing agencies and timely delivery of project activities and accountability reports, at local level, each county will have a designated Project Coordinator appointed by the Principal Secretary, State Department of Basic Education.
8. The World Bank will be involved in regular implementation review and dialogue at all levels of the project to ensure project implementation stays on course.

1.5 Purpose and Scope of the Manual

1. This Manual aims at contributing to the strengthening of the PRIEDE project in terms of the project's financial management capacity including planning and budgeting, accounting and record-keeping, internal control and financial reporting.
2. The Manual will apply to all levels of project implementation, including the PCU at the MOE, at the PIUs responsible for executing project activities at TSC, KNEC and at County and beneficiary school levels. In addition, the Manual is intended for use by project auditors and other independent reviewers of the project's FM operations.
3. The Manual is intended to complement (but not replace) the existing GOK financial management policies, procedures and regulations in the implementation of the PRIEDE project. The purpose of this Manual is primarily to streamline financial management practices and strengthen the general fiduciary environment affecting the GPE project. The Manual therefore, supplements, and does not replace, other relevant and applicable laws, regulations and guidelines.
4. This Manual deals with the following important areas of the project's fiduciary management at national and county/school levels; (i) institutional arrangements and management roles; (ii) planning and budgeting; (iii) funds flow and disbursement management; (iv) accounting and record-keeping; (v) internal control, including internal audit; (vi) certain key aspects of procurement of goods and services; (vii) financial reporting; and (viii) external audit arrangements.

Important Note: This Manual does not include detailed project procurement arrangements, as these are deemed to be outside its scope. These will be included in a separate Project Procurement Manual. However, basic procurement issues and/or institutions are mentioned where these are considered necessary for the proper understanding of an underlying financial management concept.

5. All relevant project personnel of implementing entities at national and county/school levels will be trained in this Manual to ensure shared and seamless understanding and implementation of the Manual across the board.

1.6 Objectives of the Manual

1. To establish clear institutional and fiduciary reporting inter-relationships among the project's management and implementing entities, including oversight arrangements and the fiduciary roles of key project personnel;

2. To highlight key elements of an effective financial management system to ensure the project's annual cycle involving planning, budgeting, accounting, control, financial reporting and audit activities are carried out as systematically as prescribed;
3. To provide a framework for the generation and maintenance of understandable, relevant, reliable, complete and timely financial information to allow GOK/MOE, implementing entities and the World Bank to plan, implement and monitor project activities within agreed procedures and facilitate appraisal of progress towards the achievement of the project's objectives;
4. To ensure that regular reports to GOK/MOE, World Bank, local communities, auditors and the general public are useful and are in accordance with agreed content and format, and for the agreed period by strengthening the financial management systems of the implementing entities, capable of generating timely, accurate and reliable financial statements, for use in internal management decision making and external financial reporting;
5. To ensure that financial management arrangements for the project's implementation are in compliance with GOK statutory and World Bank policies and requirements by providing clear accounting and internal control policies and procedures to facilitate the implementation of the project in a transparent and accountable manner;
6. To secure a system of consistent recording, classifying and reporting of financial transactions and information across the project – at beneficiary schools, TSC, KNEC and MOE PCU – and facilitate timely, efficient and effective data and information consolidation at all relevant levels
7. To provide heads of implementing entities and their staff with a guide to assist them in establishing systems of appropriate internal, accounting and administrative controls that comply with GOK and World Bank standards of financial management and provide arrangements that ensure that the project's assets are safeguarded from loss, abuse or malicious damage at all times;
8. To provide key timelines within which critical financial management documents and reports should be submitted to various stakeholders for review and/or approval in order to ensure seamless project implementation;
9. To entrench a culture of sound financial governance in project implementation, including public participation and social accountability mechanisms, where appropriate; and
10. To equip auditors, officers providing supportive supervision and other stakeholders with information and tools for evaluating the implementation of the generally accepted and laid down financial policies and regulations at all institutions benefitting from project funds;

1.7 Basis of the Manual

1. This FM Manual is largely anchored on country FM systems as already stipulated in GOK regulations, policies and procedures. However, the Manual contains a few re-alignments and modifications deemed necessary for the effective implementation of the project and accord with: (i) the special institutional framework for the project; and (ii) World Bank's FM policies, procedures and requirements.
2. The key sources of principles and foundations for this Manual include:
 - a) Constitution of Kenya, 2010
 - b) Public Finance Management Act, 2012
 - c) Government of Kenya Financial Regulations and Procedures (Revised 1996)

- d) Standard Conditions for Loans/Grants by the World Bank, July 2010.
- e) World Bank guidelines on financial management and disbursements
- f) The Project Appraisal Document (PAD)
- g) Project Financing Agreement
- h) The Basic Education Act No. 14 of 2013
- i) Public Audit Act No. 12 of 2003 (Revised 2012)

1.8 Structure of the Manual

1. The Manual follows a systematic flow of financial management information from planning and budgeting, through receiving, spending control and recording, to financial reporting and external audit activities. Accordingly, the Manual is presented in the order of the following generic topics:
 - a) Institutional and implementation arrangements
 - b) Planning and budgeting
 - c) Funds flows and disbursement management
 - d) Accounting and information system
 - e) Internal control, including internal audit and management oversight arrangements
 - f) Financial reporting
 - g) External audit arrangements
2. For a proper and complete understanding, the Manual should be read in its entirety, and in conjunction with the underlying principles, regulations and legislations.

1.9 Update/Amendment of the Manual

3. Being a ‘living’ document, this Manual will be reviewed continually to accommodate changes in GOK and/or World Bank regulations, as well as changes in PFM legislation where these have significant consequences on the project’s FM environment.
1. All users of this Manual are urged to provide feedback and lessons learnt from their ‘on-the-ground’ experiences to the PCU through written memoranda via electronic (email) or other appropriate communication means.
2. The National Project Coordinator, in consultation with the Principal Secretary, State Department of Education, will liaise with the World Bank and other relevant MOE departments to discuss and formalise the desired changes, which will then be incorporated in the Manual.
3. All approved amendments will be referenced and filed in a Manual Amendment File at PCU and disseminated to all implementing entities. The revised version number of the Manual will be indicated and a summary of the changes appropriately incorporated.

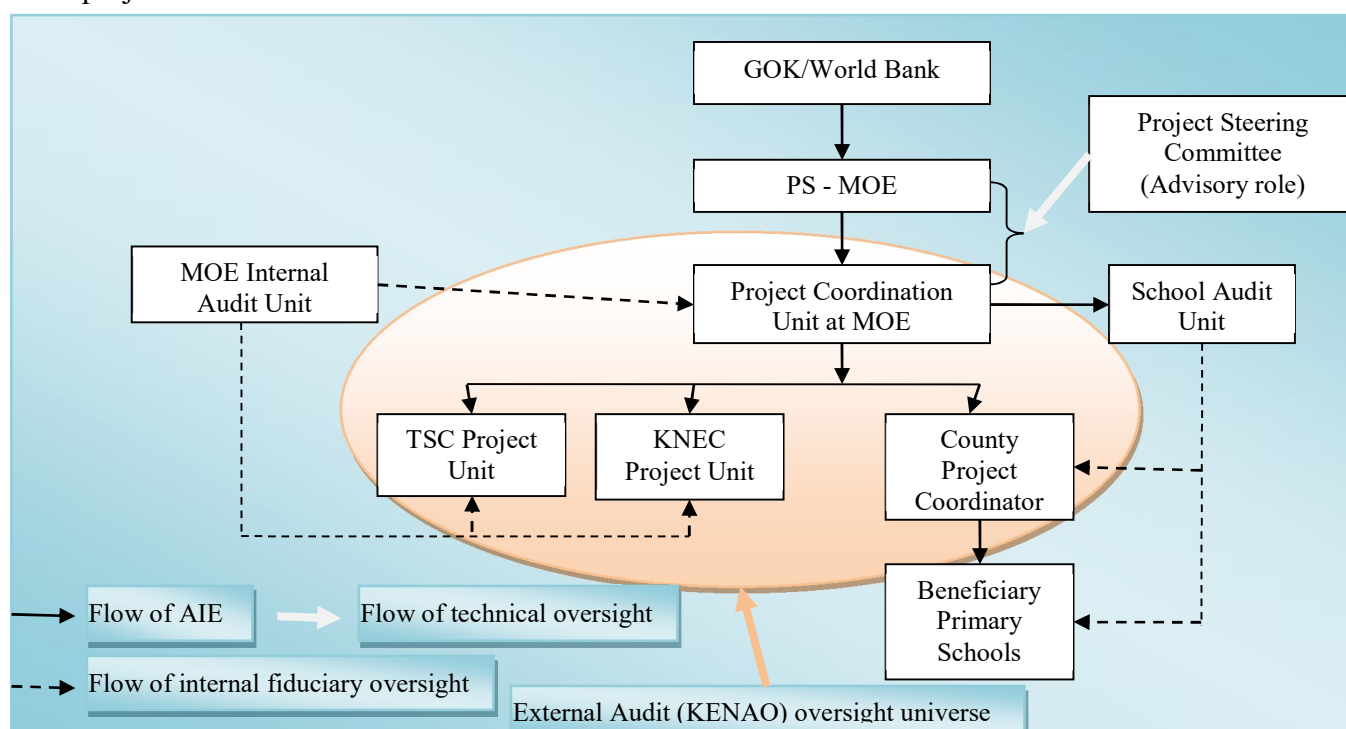
1.10 Non-Compliance with the Manual

1. Non-compliance with the guidelines in this Manual will constitute a breach of duty and those responsible shall be liable to disciplinary action under the existing Public Service Code of Regulations and the existing laws and regulations.
2. It is the responsibility of the Head of the PCU to provide necessary guidance in ensuring full compliance with these guidelines. In the event of conflict between existing GOK financial management procedures with the provisions of this Manual, appropriate-level consultations will be made but GOK procedures will supersede.

2.0 PROJECT INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

2.1 Key Fiduciary Responsibilities

1. The overall fiduciary responsibility for the PRIEDEproject implementation rests with the Principal Secretary, State Department of Basic Education through the project coordination unit (PCU).
2. Project fiduciary responsibilities will be delegated to the heads of the implementing entities receiving project funds at the national and school levels. These implementing entities are as follows:
 - a) MOE PCU
 - b) TSC
 - c) KNEC
 - d) County Education Offices
 - e) Beneficiary primary schools
3. The head of each of the above implementing entities will be responsible for the fiduciary management and reporting of funds disbursed to the entity that they head.
4. While the MOE PCU will be responsible to the National Treasury and to the World Bank for overall accountability over funds disbursed to the project including ensuring timely financial reporting, the head of each of the other entities will be responsible to the PCU for the actual accounting, controlling, and reporting of the funds received by the respective entities.
5. The project FM arrangements will primarily follow country systems both at the ministry (PCU) level as well as at each of the other implementing entities. The project coordination team (PCU) will, among others, be supported by the MOE's Chief Procurement Office, Chief Finance Office, and the Principal Accounts Controller's Office.
9. The figure below illustrates the high-level institutional and fiduciary oversight arrangements for the project.



2.2 Key FM Implementation Responsibilities

2.2.1 Role of the Project Coordination Unit

1. The Head of the PCU will report to the Principal Secretary, State Department of Basic Education, and will be granted a high degree of autonomy to ensure efficient and effective implementation of the project, including through the application of rules, criteria, and procedures agreed with the World Bank.
2. The PS - Education, as the Accounting Officer of MOE, will appoint the PCU as a procuring unit and will delegate financial management responsibilities to the PCU, within the Legal Framework stipulated in the procurement law of Kenya.
3. Notwithstanding these provisions, the Head of the PCU will be accountable to the Principal Secretary, State Department of Education.
4. The PCU will be accountable to the Principal Secretary, State Department of Basic Education and will be headed by a full-time Project Coordinator and four Deputy Project Coordinators, heading each of the four components.
5. At local county level, each county will have a designated Project Coordinator appointed by Principal Secretary, State Department of Basic Education.
6. The fiduciary responsibilities of the National Project Coordinator will include:
 - i. Gathering all data necessary for annual work planning, work programming, and budgeting, consolidating the project annual implementation plan and budget;
 - ii. Coordinating and working closely with the other implementing entities to prepare, consolidate and submit annual work programs, budgets, procurement plans and disbursement forecasts to the World Bank.
 - iii. Gathering and consolidating information into quarterly and annual financial reports on project funds, in the prescribed format and content, and submitting the reports to the National Treasury and World Bank within the stipulated deadlines;
 - iv. Consulting with the World Bank and circulating to all project sub-implementers a list of all local commercial banking institutions acceptable to the World Bank for purposes of disbursement of project funds.
 - v. Ensuring that all project bank accounts are opened and operated in a controlled manner, ensuring timely and efficient procurement and disbursement of funds;
 - vi. Monitoring project FM implementation progress, identifying bottlenecks and providing solutions to address the challenges;
 - vii. Ensuring that the other implementing entities have and continue to have adequate FM arrangements for effective project implementation;
 - viii. All project-related audits and other authorised independent reviews.
 - ix. Approving overall project financial reports and reporting to the project Steering Committee, the World Bank and wider public audience.
7. The fiduciary responsibilities of the Deputy Project Coordinator in charge of Component 1 will include the preparation of the Component 1 annual work plan and budget at national and consolidate county work plans.

8. The fiduciary responsibilities of the Deputy Project Coordinator in charge of Components 2 will include:
 - a) The preparation of the annual work plan and budget, monitoring the implementation and reporting on the progress and result of each sub-component.
 - b) Specifically for Component 2 the Deputy Project Coordinator will be responsible for:
 - i) Coordinating the review of the submissions of school improvement plans from Component 2 participating schools before school grant disbursements can be made;
 - ii) Coordinating with KNEC, TSC and the School Audit Unit with respect to their sub-component implementation;
 - iii) Ensuring, in coordination with County Project Coordinators, that participating primary schools maintain proper records for receipts, expenditures and assets; and
 - iv) Monitoring and reporting on the school improvement program implementation.
9. The fiduciary responsibilities of the Deputy Project Coordinator in charge of Component 3 will include the
 - i) preparation of Component 3 annual work plan and budget and monitoring and reporting on the progress and results of each sub-component and
 - ii) Coordinating with KNEC, TSC and the School Audit Unit with respect to their sub-component implementation
10. The fiduciary responsibilities of the Deputy Project Coordinator in charge of Component 4 will include:
 - i) Consolidating annual work plan and budgets for the PCU and implementing units of the agencies; and
 - ii) Monitoring and reporting of the implementation progress and results.
11. The PCU will review and strengthen, as necessary, the fiduciary implementation capacity of the TSC and KNEC, and provide support to develop or strengthen fiduciary capacities at the lower layers of project implementation at county/school level by providing/supporting capacity building training support after a capacity assessment has been carried out.
12. Additionally, “just in time” technical assistance may be provided through the services of consulting firms, or by procuring additional embedded support consultancies to aid in the development of required capacities.

2.2.2 Role of TSC and KNEC

1. The other national-level project implementing entities (TSC and KNEC) will be responsible to the national PCU through the respective CEOs for all fiduciary arrangements.
2. The CEOs of TSC and KNEC will be responsible for ensuring that project funds received by them are used for the intended purposes efficiently, effectively and economically.
3. The CEOs of TSC and KNEC will each ensure that a separate non-commingled sub-project bank account is opened and operated for the project in accordance with this Manual
4. The CEOs of TSC and KNEC will each identify and designate a qualified and experienced accountant to support FM functions at their respective PIU.
5. The designated officers of the PCU from TSC and KNEC will ensure that all documents and reports, such as plans, budgets, and financial reports, required to be submitted to the PCU are actually submitted within the established timelines.

6. The designated officers of the PCU from TSC and KNEC will also be responsible for preparing TORs and goods specifications required for bidding documents as well as all invoices, payment certificates and other data that may be needed for financial management and reporting for their respective project activities.

2.2.3 Role of County Project Committee

1. The County Director of Education through delegated responsibility to the County Project Coordinator will be responsible, on behalf of the County Project Committee, for accountability over project funds disbursed to the county and for downstream supervision activities at the primary school level and results monitoring.
2. To this end, the County Director of Education will ensure that a separate non-commingled bank account is operated at a suitable commercial bank, for ease of tracking, accounting and reporting of project funds.
3. The County Director of Education through delegated responsibility to the County Project Coordinator will be responsible for:
 - i) preparation of annual work plan and budget for the County, and
 - ii) gathering and consolidating annual primary school work plans and budgets, and transmitting them to MOE PCU through the County Director of Education.
4. The County Director of Education through delegated responsibility to the County Project Coordinator will work with the County and Sub-County Education Offices, for regular supportive supervision visits to benefitting primary schools to provide project implementation guidance and support, as may be deemed necessary.
5. The County Project Coordinator will provide summarized quarterly and annual school supervision reports to the MOE PCU through the County Director of Education, highlighting any major fiduciary weaknesses noted and remedial recommendations deemed appropriate.

2.2.4 Role of Boards of Management and Primary School Heads

1. The Board of Management (BOM) of project beneficiary schools will be responsible for accountability over project funds disbursed to their institutions.
2. To this end, the BOMs will ensure that a separate non-commingled bank account is operated at a suitable commercial bank, preferably where their other school funds are kept.
3. The Head Teacher will provide the school's bank account details, including authorized signatories, to the County Project Coordinator for onward submission to MOE PCU through the County Director of Education, to facilitate direct disbursement of project funds to schools.
4. The Head Teachers will cooperate with the County Project Committee in promoting the fiduciary management of project funds and the protection of assets and materials acquired from the funds.
5. The Head Teachers will ensure complete cooperation with, and facilitation of the work of school fiduciary oversight organs, including the School Audit Unit and other internal or external reviewers of project fiduciary operations.
6. It will be the responsibility of Head Teachers to formally respond to and address any issues of concerns raised by the various school fiduciary oversight organs through the BOMs.

2.3 Project Fiduciary Staffing

1. The PCU will be appointed by the Principal Secretary in consultation with the CEOs of TSC and KNEC.
2. Project fiduciary staff will include those appointed or seconded from the civil service from MOE, TSC, KNEC, CEMASTEIA, KEMI, KICD and County Education Offices, in accordance with current civil/public service rules.
3. Project consultant staff, if needed for the project's fiduciary duties, will be recruited competitively, based on criteria agreed with the World Bank and in accordance with World Bank Selection and Employment of Consultants Guidelines or as may be approved by the World Bank.
4. Except for fiduciary consultants who will be hired on a need-basis, all other project fiduciary personnel will be devoted to project activities on a full-time basis.

3.0 PROJECT PLANNING AND BUDGETING

3.1 Annual Work Planning and Budgeting

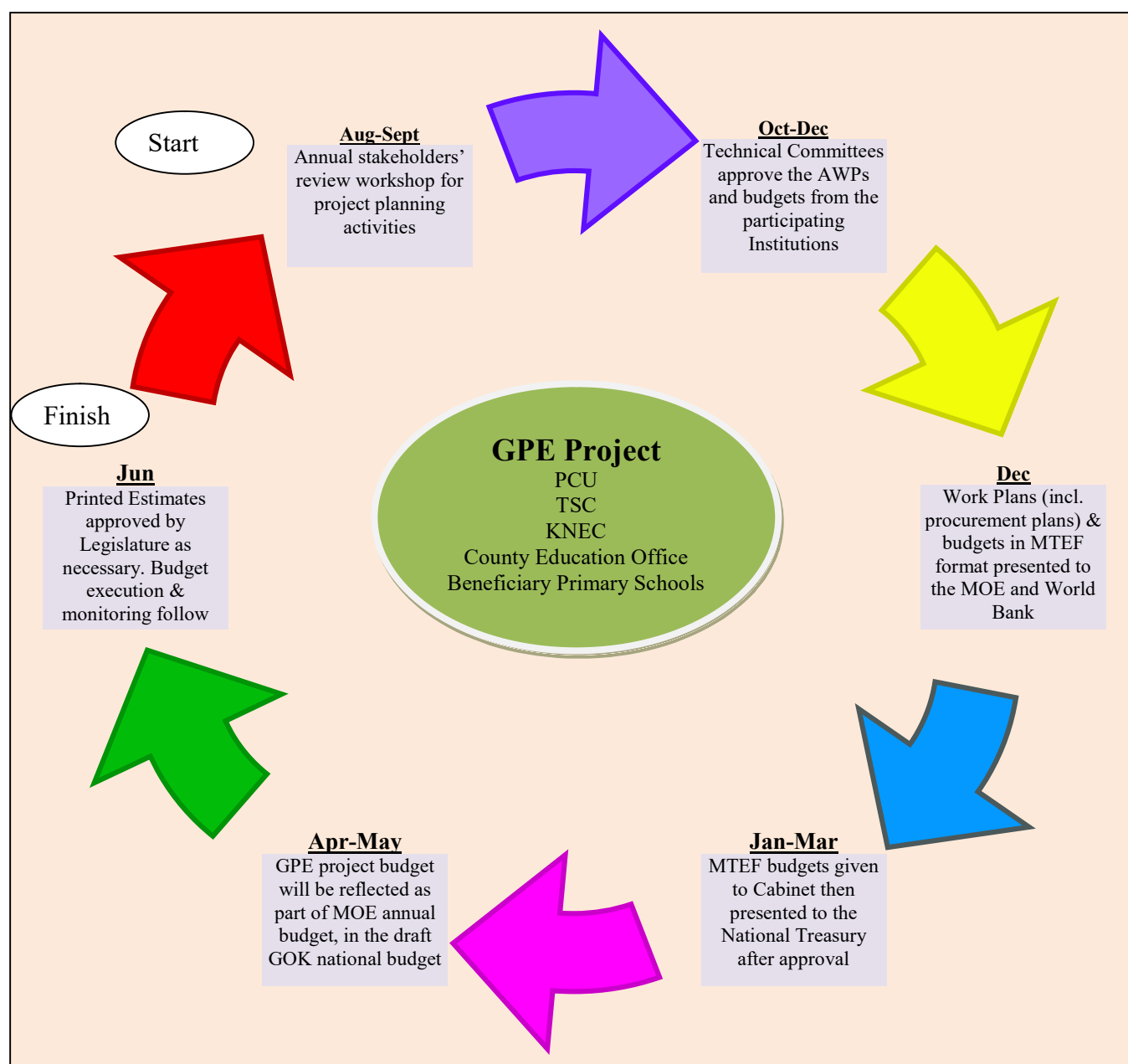
1. Since PRIEDE project is a national project implemented at the national and county/school level, the MOE will be the project's budget holder. Annual project planning and budgeting activities will follow the normal GOK procedures as anchored in the MTEF process.
2. Annual project budgets will be based on annual work plans and sub-budgets from implementing entities at PCU, TSC, KNEC and Counties (consolidating school budgets) which will then be compiled and consolidated by the PCU with its own budget.
3. The consolidated work plans and budgets will be submitted to the Project Steering Committee (PSC) for review and approval, before being submitted for formal approval by the parent ministry (MOE) and eventually presented for final approval to the National Assembly and for inclusion in the National Printed Estimates.
4. The work plans and sub-budget submissions will be based on the projected activities to be undertaken during the coming financial year.
5. The Head of the PCU will formally and on in timely fashion communicate the work plan and sub-budget submission deadlines to the implementing entities, as well as the required form and content of such submissions.
6. Project budgeting will be based on the GOK standard chart of accounts (SCOA), which is already in use for budgeting, accounting, budget monitoring, and financial reporting.
7. At school level, the school work plan and budget will be discussed and approved by the BOM at the relevant meeting. The Head Teacher will submit the work plan and budget to the County Project Committee for review and approval. This should happen one month before the end of the financial year so that approval can be provided in good time, and actual school-level spending can commence at the beginning of the next financial year.
8. All units will ensure that the work plans are prepared in sufficient detail and in line with the categories of expenditures in the project for ease of consolidation and monitoring of implementation at the PCU. To this end, the PCU will make arrangements to capacity build implementers on the format of the work plans and budgets and documentation of content and expenditure categories of the project.

3.2 Budgeting under A-in-A and Revenue Modes

1. Certain project heavy or large scale procurement costing 20 million Kenya Shillings or more under any of the Components will be budgeted under the Appropriation-in-Aid (**A-in-A**) mode of payment (**direct payment disbursement method**).
2. This mode of disbursement ensures that the project will be able to implement large scale procurement without significant cash liquidity problems and ensure low operational risks as the World Bank will make payment directly to the suppliers of goods and services.
3. However, the project's management costs (Component 4) which include operational costs, will be budgeted under the **Revenue** mode of budgeting following the laid down GOK procedures relating to Revenue-based funds flow arrangements.

3.3 Planning and Budgeting Cycle

1. The annual project planning and budgeting process commences immediately after the end of the previous financial year. This normally begins with the National Treasury issuing a Budget Circular in the month of August.
2. A Budget Circular is a statement from the National Treasury to government ministries, departments and agencies, as well as counties, outlining policy and technical guidelines on how to prepare the budget for the forthcoming fiscal period.
3. More budgeting details can be obtained from the PFM Act, 2012 and the most recent Budget Circular. The annual project planning and budgeting activities can be summarised as shown in the diagram below.



3.4 Budget Execution Monitoring

1. The overall execution of the project budget will be monitored through the vote book mechanism at the PCU, TSC, KNEC and County levels.
2. However, at the level of benefitting primary schools, budgetary monitoring will be undertaken by the County Project Committee, working with the County and Sub-County Education Offices, during their regular, preferably quarterly, school supervision visits.
3. Further budget execution monitoring will be done through unaudited quarterly Interim Financial Reports (IFR) submitted to IDA. An analysis of significant variations between the budgeted and actual financial performance will be conducted every quarter and compiled into a report that will form part of the quarterly project IFR.
4. The approved budgets sets out the authority for expenditure. There shall be no expenditures before the approval of the work plans and budgets by the Project Steering Committee as these shall be deemed ineligible expenditures.

3.5 Budget Amendments

1. The PCU shall ensure completeness of work plans and activities to facilitate efficient implementation and minimal amendments to the budgets.
2. Revisions to activities and reallocation of budgets shall be documented and approved by the Permanent Secretary. The TTL shall be consulted and agree to the amendments before presenting them to the PS. Such revisions shall be annexed to the initial approved budgets.

4.0 PROJECT FUNDS FLOW AND DISBURSEMENT MANAGEMENT

4.1 General Overview

1. The project will adopt the normal GOK funds flow system for MOE for disbursement of funds to benefitting primary schools and to the sub-implementers.
2. However, separate non-commingled bank accounts would be opened at TSC, KNEC and at each of the benefitting primary schools and County Education Offices receiving GPE project funds.
3. GPE project funds from the main MOE Project Account will be deposited into these separate bank accounts of schools and sub-implementers, based on quarterly work plan-driven cash forecasts. Project payments will be made from these separate accounts for eligible expenditures at schools and sub-implementers.
4. Approval of funds disbursements by the World Bank is dependent on compliance to disbursement conditions and especially timely accounting of eligible expenditure for subsequent disbursements. In this regard, the PCU will ensure efficiency in utilisation of funds and accounting and reporting of expenditure by all units so that requests for funds are well planned and timely approved.
5. Funds disbursement and withdrawal applications will be made at regular intervals so as to maintain all project accounts in active status.

4.2 Overview of Project Accounts

1. A USD denominated project designated bank account (DA) and the main project local currency (Kshs) bank account (PA) will both be opened at the CBK in line with the Treasury Single Account (TSA) requirements in accordance with the PFM Act, 2012.
2. Other sub-project bank accounts for KNEC, TSC, benefitting primary schools and county education offices will be opened in local commercial banks acceptable to the World Bank.
3. The Project DA will be opened and operated by the National Treasury following the normal standard GOK regulations and procedures for similar accounts.
4. The main PA will be opened and operated by the MOE in line with normal standard GOK regulations and procedures for similar accounts. The Head of the PCU will be added as a mandatory signatory for all withdrawals from this account, since he/she will bear full delegated authority as the GPE Project AIE Holder.
5. The World Bank will release funds in US\$ from the GPE Grant Account to the Project DA following the process and procedures to be described in the Disbursement Letter from the World Bank.
6. From the Project DA, funds will be released to the main PA at CBK based on approvals by the MOE PCU in consultation with the Principal Secretary following normal GOK procedures.
7. Project funds will further be disbursed from the main PA at CBK to the bank accounts of schools and the other sub-implementers using the G-pay EFT system of CBK to finance eligible project expenditures. Disbursements from the main PA to sub-implementers' accounts will be based on their individual work plans and budgets, as well as satisfactory accountability returns over previous disbursements.
8. All withdrawals from the PCU and sub-implementers bank accounts will be made only for approved and eligible project expenditures, and disbursements at all levels of the project will be made promptly and without undue delays.

9. World Bank Project funds and GOK counterpart funds, if any, deemed necessary to finance necessary but World Bank-prohibited expenditures (such as salary top-ups) will flow into the main PA account through the normal GOK Exchequer procedures.
10. The Disbursement Letter from the World Bank will provide details of how funds will flow to the project and how return accountability for the funds will flow to the National Treasury and the World Bank, including minimum disbursement thresholds.

4.3 Project Disbursement Methods

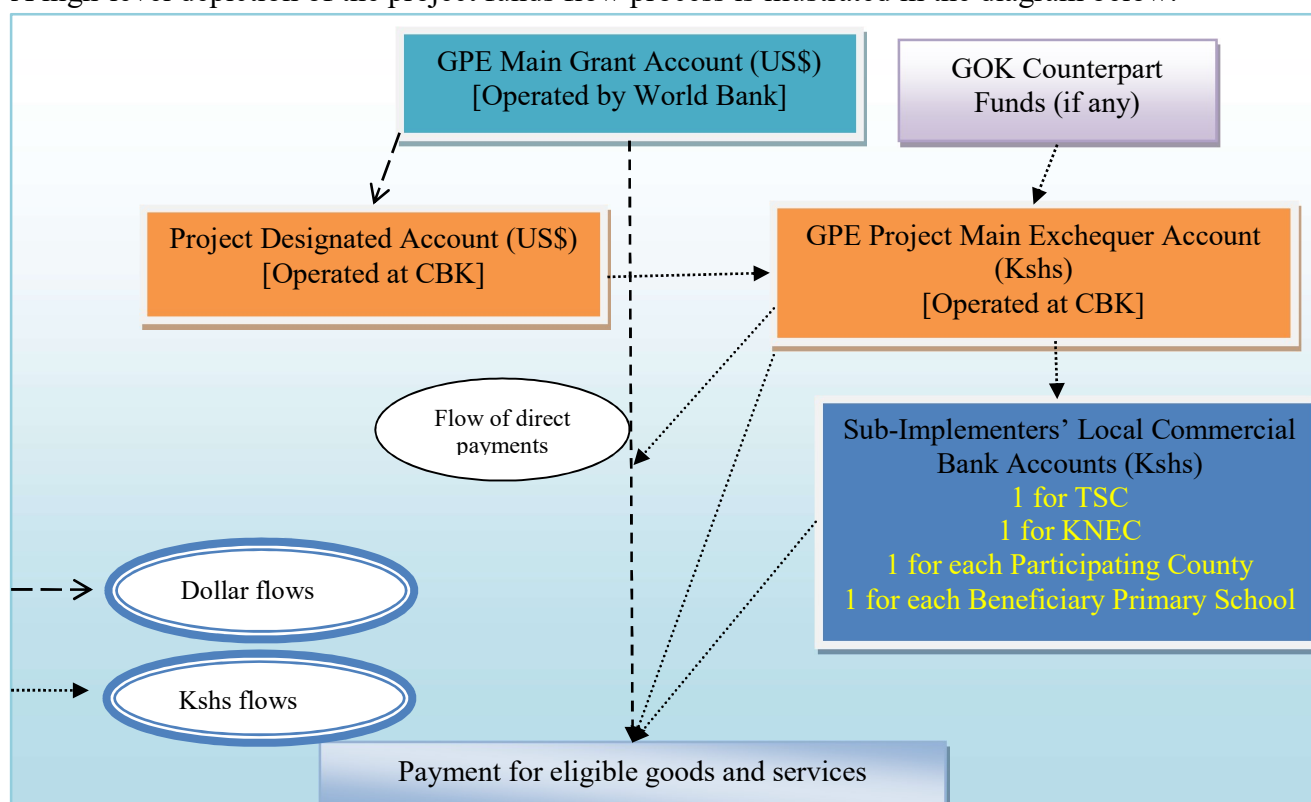
1. **SOE Disbursements:** The project will adopt the Statement of Expenditure (SOE) disbursement method, which entails a reimbursement regime, and will operate as follows:
 - a) The World Bank will make an initial advance to the project based on an approved budget, work plan and cash forecast for the first quarter after project effectiveness subject to the ceiling set by the Disbursement Letter.
 - b) Subsequent releases of funds by the World Bank to the project will be based on summary documentation in the form of an SOE from the PCU showing that eligible project expenditures have been incurred and paid for from the advance.

Important Note: In order to speed up overall project disbursements from the World Bank to the Project DA, for SOE purposes, grant disbursements to project beneficiary primary schools will be treated as expenditure at the point of disbursement. This is intended to speed up disbursements to schools (without requiring frequent school-based financial accountability returns), but overall accountability and value-for-money audits at that level will be monitored by the County Project Coordinators and reinforced by the School Audit Unit, which will undertake 100% audit of the project school universe annually.

2. **Direct payments:** These will entail payments to third parties for major project goods and consultancy contracts. These will be made from the main PA or through direct payments from the DA depending on the minimum threshold agreed with the World Bank. Where direct payments are to be made by IDA, the PCU will provide full documentation showing that such expenditures have been incurred at the time a request for payment to the third party is made.
3. **Special Commitments:** The PCU in consultation with the Principal Secretary may request the World Bank to pay third parties for eligible expenditures under special commitments entered into between the project and the third party on terms and conditions agreed between the World Bank and the GOK. Payments are made to a financial institution for the cost of project expenditures covered by a special commitment. A special commitment is an irrevocable commitment entered into by the World Bank in writing to pay such. The financial institution provides confirmation that such expenditures have been incurred at the time a request for payment is made. The financial institution would provide a confirmation that documents have been received and are acceptable, and that payment has been made or is due and will be made promptly to the beneficiary covered by the special commitment.
4. **In-project SOE disbursements:** Within the project itself, and for simplicity, the PCU through the Principal Secretary may disburse funds to the sub-implementers through the Statement of Expenditure (SOE) disbursement method, operated along the lines described under section 4.3 (1) above.

4.4 Project Funds Flow Diagram

1. The main source of funding for the project will be IDA, but the GOK may also provide some counterpart funding, either in monetary and/or non-monetary resources.
2. A high-level depiction of the project funds flow process is illustrated in the diagram below.



4.5 Operation of Main Project Account

1. As stated under section 4.2, the MOE/PCU will open and operate a non-commingled account which is the main project local currency (Kshs) bank account at the CBK, that will receive all project funding from the DA for project implementation purposes.
2. There will be four authorised signatories to the main PA, namely: (i) PS-State Department of Basic Education; (ii) Head of PCU; (iii) MOE Principal Accounts Controller (or designate); and (iv) the assigned Project Accountant.
3. To enhance accountability at the PCU, any three of the authorised signatories must sign against any withdrawals from the PA, but the Head of the PCU and the Principal Secretary will be mandatory signatories.
4. In the absence of any of the authorised signatories for prolonged periods for any reason, prompt formal replacement arrangements will be made to ensure project implementation is not unduly disrupted. The -State Department of Basic Education and the Head of the PCU will pay particular attention to this matter, as this can be a major bottleneck in the funds flow process.
5. The Head of the PCU will have full authority to incur project expenditure, formally delegated by the relevant Principal Secretary/Accounting officer in the MOE. As such, the Head of the PCU will be primarily responsible for all project implementation activities and accountability over project funds.

4.6 Operation of TSC Project Account

1. The TSC will open and operate a non-commingled local currency (Kshs) bank account at a commercial bank approved by the National Treasury and acceptable to the World Bank.
2. The TSC project account will receive project funding from the main PA for project implementation purposes.
3. The initial transfer of funds from the main PA to the TSC account will be based on the approved quarterly work plans and budgets.
4. Subsequent transfers of funds from the main PA to the TSC account will be based on satisfactory return accountability over previously disbursed funds, supported by approved work plans and budgets.
5. The Principal Secretary will formally delegate authority to incur expenditure to the CEO, TSC for the TSC component/sub-component activities.
6. There will be two authorised signatories to the TSC project bank account as follows:

a)	Chief Executive Officer	Signatory but not approver in IFMIS
b)	Director Accounts	Signatory and approver Level 2 in IFMIS
c)	Deputy Director Accounts	Signatory and approver Level 1 in IFMIS
d)	Assistant Deputy Director Accounts 1	Signatory and approver Level 2 in IFMIS
e)	Assistant Deputy Director Accounts 2	Signatory and approver Level 1 in IFMIS

7. To enhance accountability; TSC, any two of the authorised signatories, each from a level of approval must sign against any withdrawals from the TSC project bank account.
8. In the absence of any of the authorised signatories for prolonged periods for any reason, prompt formal replacement arrangements will be made to ensure project implementation is not unduly disrupted. The TSC Project Manager and the Designated Project Accountant will pay particular attention to this matter, as this can be a major bottleneck in the funds flow process.
9. Upon the written approval of the Principal Secretary/Accounting officer, MOE, the TSC signatory structure may be amended as may be deemed necessary to enhance the efficiency and effectiveness of project fiduciary operations.

4.7 Operation of KNEC Project Account

1. The KNEC will open and operate a non-commingled local currency (Kshs) bank account at a commercial bank approved by the PCU and acceptable to the World Bank.
2. The KNEC project account will receive project funding from the main PA for project implementation purposes.
3. The initial transfer of funds from the main PA to the KNEC account will be based on the approved quarterly work plans and budgets.
4. Subsequent transfers of funds from the main PA to the KNEC account will be based on satisfactory return accountability over previously disbursed funds, supported by approved work plans and budgets.
5. The Principal Secretary will formally delegate authority to incur expenditure to the KNEC CEO for the KNEC component/sub-component activities.
6. There will be three authorised signatories to the KNEC project bank account as follows:

a)	KNEC Project Manager
b)	KNEC Financial Controller/Alternate
c)	KNEC CEO (or designate)

7. To enhance accountability at KNEC, the three authorised signatories must sign against any withdrawals from the KNEC project bank account.
8. In the absence of any of the authorised signatories for prolonged periods for any reason, prompt formal replacement arrangements will be made to ensure project implementation is not unduly disrupted. The KNEC Project Manager and the Designated Project Accountant will pay particular attention to this matter, as this can be a major bottleneck in the funds flow process.
9. Upon the written approval of the Principal Secretary, the KNEC signatory structure may be amended as may be deemed necessary to enhance the efficiency and effectiveness of project fiduciary operations.

4.8 Operation of County Project Accounts

1. Each participating county will open and operate a non-commingled local currency (Kshs) bank account at a commercial bank approved by the PCU and acceptable to the World Bank.
2. The county project account will receive project funding from the main PA for regional and zonal training, and school-level supervision, and monitoring purposes.
3. The initial transfer of funds from the main PA to the county bank account will be based on the quarterly work plans and budgets approved by the County Technical Committees.
4. Subsequent transfers of funds from the main PA to the county bank account will be based on satisfactory return accountability over previously disbursed funds, supported by approved work plans and budgets.
5. The Principal Secretary will formally delegate authority to incur expenditure to the County Director of Education, who will be primarily responsible for fiduciary operations at the county level.

6. There will be three authorized signatories to the county project bank account as follows:

a)	County Director of Education
b)	County Project Coordinator
c)	County Accountant (National Treasury)

7. To enhance accountability at county level, the three signatories must sign against any withdrawals from the county project bank account.
8. In the absence of any of the authorized signatories for prolonged periods for any reason, prompt formal replacement arrangements will be made to ensure project implementation is not unduly disrupted. The County Project Coordinator and the County Director of Education will pay particular attention to this matter, as this also can be a major bottleneck in the funds flow process.
9. Upon the written approval of the Principal Secretary/Accounting officer MOE, the county project account signatory structure may be amended as may be deemed necessary to enhance the efficiency and effectiveness of project fiduciary operations.

4.9 Operation of School Project Accounts

1. Each project beneficiary primary school will open and operate a non-commingled local currency (Kshs) bank account at a commercial bank approved by the PS and National Treasury, through the County Technical Committee, and acceptable to the World Bank.

2. The school project account will receive project funding from the main PA for the payment of school-level eligible expenditures related to project implementation activities.
3. The initial transfer of funds from the main PA to the school bank account will be based on quarterly work plans and budgets reviewed and approved by the County Technical Committee. The work plans and budgets should be based on the School Improvement Plans.
4. Subsequent transfers of funds from the main PA to the school bank account will be based on satisfactory return accountability over previously disbursed funds to the County Project Coordinator, with accountability being confirmed by the County Director of Education to the PCU through the regular (e.g. quarterly) county-based school reports.
5. Through the County Director of Education, the Principal Secretary/Accounting officer will formally delegate authority to incur expenditure to each benefiting school Head Teacher, who will be primarily responsible for fiduciary operations at the school.
6. There will be four authorised signatories to the school project bank account as follows:

a)	Head Teacher
b)	Chairperson, Board of Management
c)	Elected Parents' Representative
d)	Member of the BOM
7. To enhance accountability at county level, any three of the four authorised signatories must sign against any withdrawals from the school project bank account, with the Head Teacher and the Chairman, Board of Management being a mandatory signatories.
8. In the absence of any of the authorised signatories for prolonged periods for any reason, prompt formal replacement arrangements will be made to ensure project implementation is not unduly disrupted. The Head Teacher will pay particular attention to this matter and report to the County Director of Education through the respective Sub-County Director of Education, as this also can be a major bottleneck in the funds flow process.
9. Upon the written approval of the County Director of Education, the school project account signatory structure may be amended as may be deemed necessary to enhance the efficiency and effectiveness of project fiduciary operations.

5.0 PROJECT ACCOUNTING ARRANGEMENTS

5.1 Project Accounting System and Responsibilities

1. The project accounting system at all spending units will be maintained on the cash basis of accounting, which entails the recording of income when cash is actually received and the recording of expenditures when cash is actually paid out.
2. The project financial year will be the same as that of the GOK, that is, 12 months from 1st July to 30th June of the following year.
3. The project will use the standard GOK chart of accounts (SCOA) and other accounting policies and procedures for recording, classifying, analysing and reporting project receipts and expenditures, appropriately modified, as appropriate, to accord with the project's eligible expenditure classifications.
4. The MOE PCU will be primarily responsible to ensure that all necessary and adequate accounting records and documents are maintained and kept up-to-date at all project implementation stations (PCU and sub-implementers) at all times.
5. The PCU, working closely with the MOE Head of Accounting Unit (HAM), will also be responsible for the application of appropriate accounting policies for the project. The HAM will deploy a dedicated and sufficiently qualified and experienced Project Accountant to the PCU.
6. The CEO TSC and CEO KNEC will be responsible for their portion of accounting, but will report directly to the Accounting Officer.
7. IFMIS will be the main accounting platform and annual reporting will be on International Public Sector Accountant Standards.
8. At the level of participating counties, the County Accountant (National Treasury), working closely with the County Director of Education, will establish a suitable project accounting system (automated or manual), capable of ensuring separate tracking of project receipts and expenditures to underlying accounting records and supporting documents, and to allow timely bank account reconciliation.
9. At the beneficiary primary school level, the County Director of Education, will establish a suitable, manual but simplified project accounting system capable of separately tracking project receipts and expenditures to underlying accounting records and supporting documents, and to allow timely bank account reconciliation.
10. Standard accounting books and records must be used to ensure that a clear transaction trail of receipts and payments can be established without difficulty; these include a cash book, a vote book, payment vouchers, imprest registers, and so on.

Important Note: It is expected that all project sub-implementers at national and county levels, other than schools, will have elaborate accounting records. Due to capacity constraints, benefitting primary schools will be expected to have at least a separate project cash book, separate payment vouchers, asset registers and other basic records to support all project expenditures.

5.2 Staffing Capacity of the Accounting Units

1. The accounting unit of the PCU will be headed by a full-time and fully qualified Project Accountant (deployed by the HAU) with the requisite skills and experience to execute all the accounting and other financial management functions under the project.
2. To ensure some acceptable level of segregation of accounting duties, the Project Accountant at the PCU will be supported by full-time Accountants and Accounts Assistants.
3. Reporting to the Head of the PCU, the Project Accountant will be responsible for allocating duties to, and supervising the work of, the Accountants and Accounts Assistant.
4. Project accounting activities at the TSC and KNEC will be undertaken by a dedicated Project Accountant or Accounts Assistant at each location, who will report to respective CEOs.
5. At participating counties, project accounting activities will be undertaken by a dedicated accountant from the District Accountant (serving the County level National treasury functions), who will report to the County Director of Education.
6. At the project beneficiary primary schools, the Head teacher must table the project implementation status which must include a statement of receipts and expenditures during all statutory BOM meetings.
7. At the project beneficiary primary schools, the Head Teacher will ensure proper accounting records are kept by formally delegating the project accounting duties to a teaching or non-teaching member of staff or (where non-project funds are sufficient to allow) to an outsourced accounts clerk.
8. All project financial management (FM) personnel will be taken through inductive and continuing training in the FM arrangements embodied in the following authorities, among others:
 - a) GOK FM Regulations and Procedures;
 - b) World Bank FM and Disbursement Procedures;
 - c) This Manual; and
 - d) Any other sources of FM knowledge deemed relevant for project FM duties.

5.3 Vote Book Expenditure Control

1. All national and county level project implementing entities (excluding schools) will maintain the standard GOK Vote Book control concept for expenditure control purposes, which shall be kept up to date at all times.
2. Before any payment is approved, the Project Accountant at the PCU, the designated Project Managers at TSC, KNEC, and the County Project Coordinator will regularly review the Vote Book to ensure that budget allocations have not been and will not be exceeded as a result of the payment/s about to be approved.
3. Any expenditure in excess of the authorised budget ceiling will be considered ineligible expenditure. However, formal authority for virement may be sought from the Head of the PCU with the approval of the Principal Secretary, but such virement shall not exceed 20% of the originally approved budget ceiling for the expenditure vote concerned.

5.4 Accounting Documents and Reports

1. The Head of the PCU, assisted by the designated heads of project sub-implementers, will ensure that appropriate accounting documents, summary of financial transactions and reports are maintained by the implementing units.
2. At the national implementing units (MOEST, TSC and KNEC) and County level the units the following categories shall act as a guide to the accounting documents and reports to be maintained.

- a) Funds receipts documents confirming disbursement of funds shall include disbursement requests, authority to incur expenditure (AiEs), confirmation of receipt of funds correspondences, etc
 - b) Expenditure documents shall include payment vouchers, LPOs, invoices, contract agreements, cash sale vouchers, approved imprests, per diem, accommodation and travel forms, other operating costs, etc.
 - c) Reports shall include annual financial statements, Unaudited Interim Financial Statements (IFRs), Statement of Expenditure (SOEs), Bank reconciliations, Cash books, Vote books, Inventory records, Fixed Asset register schedules, Minutes of meetings, consultancy reports, etc
3. At the schools level, as a guide, the head teachers shall maintain accounting documents and summary of transactions to ensure funds received and expenditure relating to the project are well supported. This shall include payment vouchers, invoices, cash sale vouchers, summary of receipts and use of funds, bank statements, minutes of board and school meetings, etc
 4. Notwithstanding the guide of accounting documentation and reports, to avoid ineligible expenditures all heads of implementing units will ensure adequacy of supporting documentation and accuracy reports in financial management of the project.

5.5 Filing of Accounting Documents

1. The Head of the PCU, assisted by the designated heads of project sub-implementers, will ensure that a proper and systematic document custody and filing system is established at all project implementing for all accounting documents (payment vouchers, imprest warrants, LPOs, etc).
2. All payment vouchers, attached to their supporting documents, will be numbered and filed systematically and sequentially by their dates to ensure ease of retrieval and review by management, internal and external auditors, as well as by other independent reviewers.
3. Only original documents should be used as the original evidence of financial transactions, as they provide critical information for accountability and transparency. To retain and secure these critical documents, the Head of the PCU, assisted by the designated heads of project sub-implementers, will ensure that secure filing and storage equipment is made available and used, including fire proof safes and/or cabinets.
4. All project accounting and other documents, as well as all resultant accountability reports will be retained appropriately and systematically for the required statutory period of seven (7) years.

5.6 Project Operational Costs

1. The operational costs for the project will include all costs and expenses that are budgeted for as necessary for project operations and maintenance.
2. Such operational costs will include, but are not limited to, the following ‘normal’ costs:
 - a) Communication, including office telephone, internet, airtime
 - b) Electricity and water
 - c) Insurance cover for equipment, motor vehicles, furniture, and project staff
 - d) Media advertisements
 - e) Motor vehicle maintenance, fuel and lubricants
 - f) Non-GOK staff salaries and authorised casual labour
 - g) Office and field stationery items
 - h) Office services and cleaning

-
- i) Office tea/coffee/water
 - j) Per diems at approved rates for official travel outside duty station as per GOK regulations (local and international)
 - k) Postal services courier
 - l) Security
 - m) Travelling, including taxi costs
3. It will be the responsibility of the Head of the PCU, supported by the PCU Project Accountant to maintain strict control rules on the project's operational costs generally, but especially over those that are susceptible to abuse, such as mobile phone airtime and travel-related costs.
 4. To this end, the Head of the PCU will consult with the World Bank with a view to establishing acceptable and standard airtime allowances for the various categories of project staff and consultants. This principle of consultation will be applied on deciding per diem levels, as well as whenever an issue arises that has no clear rules and requires project management judgement.
 5. The Project Accountants at the PCU and at all sub-implementers will take steps to ensure that the project's operational costs are carefully and diligently recorded and classified in the accounting records in accordance with the GOK SCOA so as to:
 - a) Classify similar costs and expenses together;
 - b) Avoid mixing different expense types;
 - c) Enable a clear appreciation of the level of expenditure in each cost category from a review of the accounting records; and
 - d) Enable the preparation of reliable financial statements and reports from the accounting records.

5.7 Potential Ineligible Expenditures and Consequences

1. In terms of the World Bank's financing agreement with GOK, the term 'Ineligible Expenditure' is construed to mean amounts withdrawn from project funds that are used to finance expenditures that are not eligible (that is, do not qualify) for project financing pursuant to the provisions of the legal financing agreement.
2. Ineligible expenditures may arise from questionable expenditures that are subsequently confirmed to be ineligible for financing following an often iterative follow-up process. During its authorised reviews or audits, the World Bank or internal and external auditors may question expenditures because of:
 - a) An apparent violation of the terms of the financing agreement; or
 - b) A finding that, at the time of the review or audit, the expenditure was not supported by adequate documentation.
3. Questionable expenditure is considered to be ineligible following confirmation that the expenditure is not eligible for financing pursuant to the provisions of the financing agreement.
4. To be eligible for financing, all project expenditures must comply with the GOK Financial Management Regulations and Procedures, Treasury Circulars, this Manual and where required, World Bank procedures. Any breach of any of the provisions of any of these instruments would render such expenditure initially questionable and eventually declared ineligible unless acceptable justification can be provided.

5. To prevent the incidence of ‘questionable’ or ‘ineligible’ expenditures, it will be the duty of all approving project personnel to take steps to ensure that all expenditures are within the approved limits, approved project work plans and budgets, and are adequately supported.
6. Examples of ineligible expenditures include, but are not limited to, the following:
 - a) Use of duplicate invoices;
 - b) Payments in excess of reasonable commercially available market rates;
 - c) Payments made in advance of receipt of goods or delivery of services, unless these payments are consistent with contract provisions and established normal commercial practices;
 - d) Payments that should have been made under normal disbursement procedures with full documentation (e.g., payments against contracts subject to the World Bank's prior review, or payments against contracts with values exceeding defined SOE limits);
 - e) Payments made for items that are not procured in accordance with the financing Agreement, such as:
 - (i) Payments not made in accordance with the World Bank's procurement procedures set forth in the financing agreement and the procurement guidelines;
 - (ii) Payments for items not specified in the procurement and withdrawal schedules and the project description in the financing agreement;
 - (iii) Payments for items on the World Bank's negative list or not on the positive list or procurements from debarred/disqualified firms; and
 - f) Payments made prior to the signing of the project financing agreement or before the eligible date specified for retroactive financing.

Important Note: The effect of expenditures being declared ineligible is that pursuant to the project financing agreement such funds must be refunded to the project or to the World Bank before any additional disbursements can be made by the World Bank. Another effect is that project funding by the World Bank may also be suspended temporarily or stopped completely (cancelled) if the incidence of ineligible expenditures is high and pervasive.

5.8 Foreign Exchange Differences

1. The primary accounting and financial reporting currency for project transactions will be the local functional currency, Kenya Shillings (Kshs).
2. Foreign exchange differences arise for the translation of transactions and/or balances denominated in currencies other than the functional currency at rates different from the initial recognition of the underlying transactions and/or balances.
3. Transactions and balances expressed in currencies other than Kenya Shillings will be treated as follows:
 - a) Receipts in US Dollars received during the year will be converted to Kshs at the rates of exchange prevailing on the dates of receipt as to be advised by the CBK.
 - b) Non Kshs denominated expenditures will be recorded at the average rates of exchange for the month in which they are paid and are accumulated in Kshs.
 - c) Assets and liabilities that are denominated in currencies other than Kshs are restated into Kshs at the rates of exchange prevailing at the financial year-end.

- d) Gains and losses arising from changes in exchange rates are accumulated and reported as a separate item in the financial reports in the quarter or financial year in which they arise.
- 4. Foreign exchange differences (net gains and losses) will be calculated and reported as a separate item, as appropriate, in the project financial reports.
- 5. Whenever project foreign currency transactions occur, the official exchange rates will be obtained from and provided by the Central Bank of Kenya (CBK) at the request of the MOE PCU. These will be the rates to be applied to the relevant project transactions and balances.

6.0 PROJECT INTERNAL CONTROL, INCLUDING INTERNAL AUDIT

6.1 Overview of Internal Control

1. Internal control is the process effected by project's management and other personnel, designed to provide reasonable (but not absolute) assurance as to the achievement of objectives regarding the reliability of financial reporting, the effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations.
2. People are the key component of the project's internal control. The project may have policy and procedures manuals, standard forms, computer-controlled information and accounting, and other features of control, but people will make the system work at every level of its management. People establish the objectives, put control mechanisms in place, and operate them. Since people operate the controls, breakdowns can occur. Human error, deliberate circumvention, management override, and improper collusion among people who are supposed to act independently can cause failure to achieve the project development and fiduciary objectives.
3. Internal control within the project will help to prevent and detect these people-caused failures, but it cannot guarantee that they will not happen. The concept of 'reasonable assurance' recognises that the costs of controls should not exceed the benefits that are expected to flow from the controls. Internal control is a process, not an end in itself, but a means to ends; it is a dynamic function, that is expected to operate every day within the project structure and operations.
4. The Heads of all implementing and sub-implementing entities will maintain adequate internal controls and supporting documentation for all project transactions. To this end, the PCU will implement internal control measures geared towards addressing real and potential inherent risks, both organisational and operational risks, through measures that will accord with the following principles:
 - a) Having properly documented and known policies and procedures for approval and authorisation of all project transactions, and ensuring that all approvals and authorisations are made in writing;
 - b) Ensuring that all pre-numbered accounting documents (such as, receipt books, cheque books and LPOs) are used sequentially by checking that only one pre-numbered accounting document is in use at a time. All new issues should be made only after the fully used ones have been returned and verified.
 - c) Satisfactory segregation of duties so that no one single individual is responsible for a transaction process from initiation, authorization, execution, and recording without the active involvement of another person(s);
 - d) Any payment in connection with or supported by any document bearing an alteration, obliteration or erasure will be refused by the approving and authorising project officers at all project locations;
 - e) Having effective management oversight bodies at all levels of the project. This will include audit and finance committees, and procurement committees, etc;
 - f) Instituting appropriate management monitoring and control activities, including budgetary control systems and reconciliation of balances;

- g) The regular conduct of internal audit (post audit) verifications and social/community accountability mechanisms, especially at beneficiary primary school level;
- h) Instituting measures to ensure project assets and stores are safeguarded from loss, abuse and malicious damage; and
- i) Ensuring compliance with project financing agreement, and applicable laws and regulations.

6.2 Approval and Authorisation of Expenditure

6.2.1 Expenditure at MOE PCU

1. All project financial transactions (payment vouchers, imprest warrants, etc) will be approved by the Head of the PCU or his/her formal designate. The PCU Project Accountant will then be required to authorize all payments that have been approved by the Head of the PCU.
2. In order to enhance transparency, no employee should authorise his/her own claims. To ensure that this principle is followed, a claim by the Head of the PCU should be approved by the relevant PS-State Department of Education or his/her designate.
3. Payment Vouchers (PVs) will be initiated by the PCU Accounts Assistant who will also maintain an up to date record in the cash book. The Project Accountant will check the PVs and the cash book on a regular basis (say, weekly) for accuracy and completeness.
4. The PCU Accounts Assistant will, under the supervision of the PCU Project Accountant, ensure that the filing of the PVs and supporting documents is properly sequenced and systematically organised.

6.2.2 Expenditure at TSC and KNEC

1. All project financial transactions (payment vouchers, imprest warrants, etc) will be approved by the designated Project Manager at TSC and KNEC.
2. The designated Project Manager at TSC and KNEC should, however, not approve his/her own claims; instead, the approval should be provided by the respective CEO/designate.
3. Payment Vouchers (PVs) will be initiated by the designated Project Accountant or Accounts Assistant at TSC and KNEC who will also maintain an up to date record in the cash book. For accuracy and completeness, the checking of the PVs and the cash book will be done on a regular basis (say, weekly) within the established systems of the respective organization.
4. The designated Project Accountant or Accounts Assistant at TSC and KNEC will, under the supervision of the designated Project Manager, ensure that the filing of the PVs and supporting documents is properly sequenced and systematically organised.

6.2.3 Expenditure at Participating Counties

1. All project financial transactions will be approved by the County Director of Education.
2. The County Director of Education should, however, not approve his/her own claims; instead, the approval should be provided by the alternate AIE holder.
3. Payment Vouchers (PVs) will be initiated by the designated Project Accountant or Accounts Assistant at the District Treasury (County level) who will also maintain an up to date record in the project cash book.
4. The County Project Coordinator will check the PVs and the project cash book on a regular basis (say, weekly) for accuracy and completeness.
5. The designated Project Accountant or Accounts Assistant at the County Treasury (a treasury unit of the National Government) will, under the supervision of the County Director of Education, ensure that the filing of the project PVs and supporting documents is properly sequenced and systematically organised.

6.2.4 Expenditure at Beneficiary Primary Schools

1. All project financial transactions will be approved by the Head Teacher.
2. The Head Teacher should, however, not approve his/her own claims; instead, the approval should be provided by Chairperson of the School Management Committee (SMC) with approval from the County Director of Education.
3. Payment Vouchers (PVs) will be initiated by the designated school bookkeeper who will also maintain an up to date record in the project cash book.
4. The County Project Coordinator will, through established system in the station, check the PVs and the project cash book on a regular basis (say, monthly or quarterly) for accuracy and completeness.
5. The designated school bookkeeper will, under the supervision of the Head Teacher, ensure that the filing of the project PVs and supporting documents is properly sequenced and systematically organised.

6.3 Operation of Bank Accounts

1. The project bank accounts that should be opened together with their authorised signatories are provided in sections 4.4 through 4.8 of this Manual.
2. A proper cash book will be maintained and kept up to date for the bank accounts at the PCU and at each of the project sub-implementers. Receipts and payments will be recorded in the cash book sequentially by their dates of occurrence.
3. If a manual cash book is kept, it must be maintained in pen (not pencil), that is, all financial records and documents shall be written up in indelible ink.
4. Any incorrect entries made in an accounting record or document must be crossed out with one line rather than being obliterated, deleted or erased fully. The correct and incorrect cancellations are illustrated below:

1,028,500

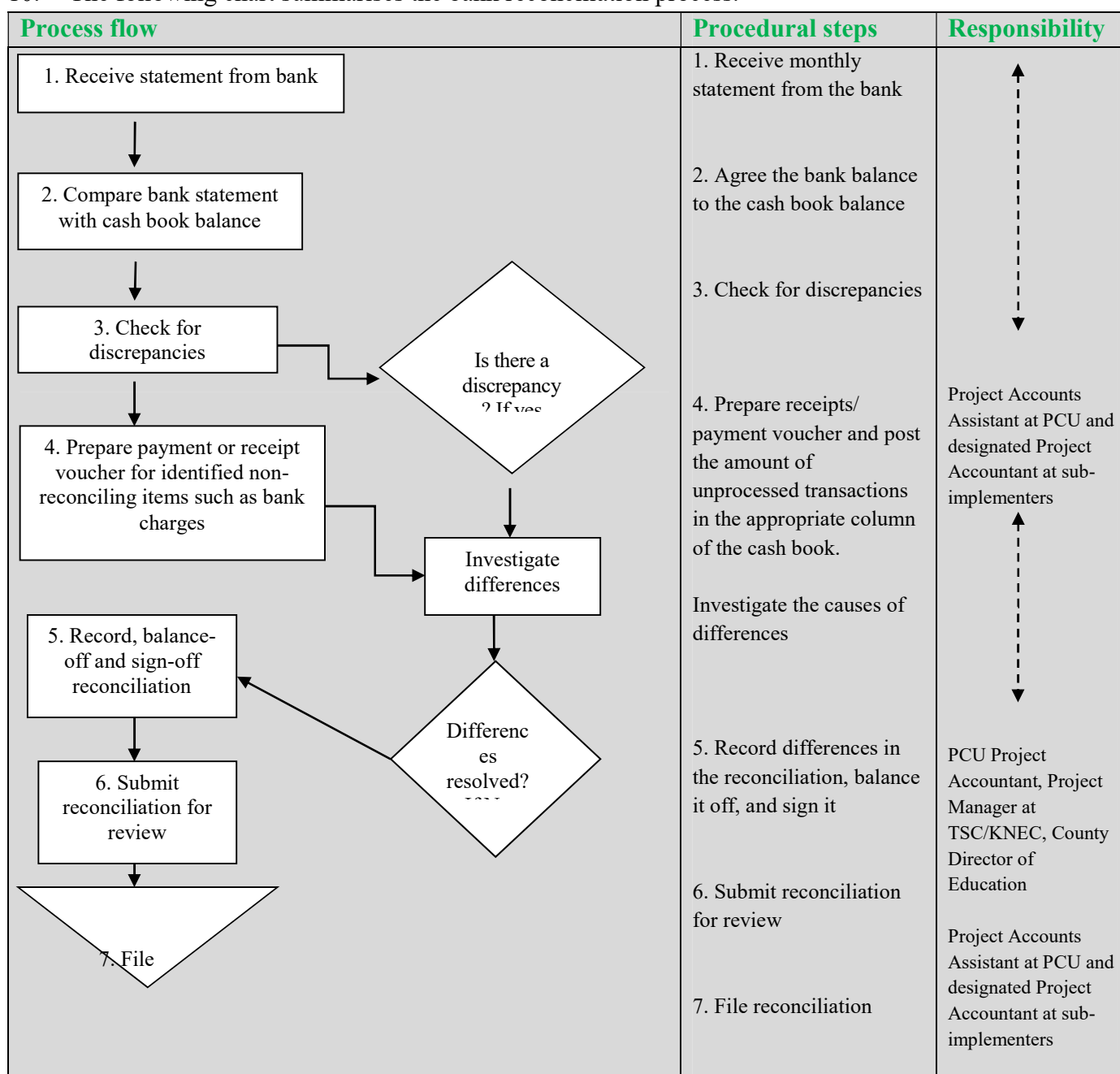
Correct cancellation

~~1,028,500~~

Incorrect cancellation

-
5. The cash book balance will be reconciled with the bank statement at the end of each month and reviewed for accuracy and completeness by a senior project official as appropriate. The preparer and reviewer of the reconciliation will sign and date the reconciliation to evidence these actions.
 6. The Bank Reconciliation Statement will be among the mandatory monthly reports to be generated at the PCU and at each of the project sub-implementers.
 7. Regular bank reconciliation statements assist in avoiding over-expenditure and monitoring payments by ensuring that the amount in the bank corresponds with the positive balance reflected in the cash book.
 8. Bank reconciliation also assists in the detection of error or fraud from either the bank or at the spending unit level. It is, therefore, imperative that accurate monthly bank reconciliation statements are compiled promptly and without fail at the end of each calendar month.
 9. To this end:
 - a) At the PCU, the Project Accounts Assistant will prepare monthly bank reconciliation statement by the 15th day of the following month. The reconciliation will be reviewed and signed by the Project Accountant without fail.
 - b) At TSC and KNEC, the designated Project Accountant or Accounts Assistant will prepare monthly bank reconciliation statement by the 15th day of the following month. The designated Project Manager will be responsible for reviewing and signing the reconciliation without fail. The Project Manager may also request a senior accounts officer at TSC or KNEC to perform this regular task on his/her behalf, and advise him/her accordingly.
 - c) Periodically, the PCU Project Accountant will make supervision visits to TSC and KNEC to review and ensure the continued effectiveness of FM arrangements, including checking that bank reconciliations are prepared and reviewed as required and in a timely fashion.
 - d) At the participating counties, the designated Project Accountant will prepare monthly bank reconciliation statement by the 15th day of the following month. The County Director of Education will be responsible for reviewing and signing the reconciliation without fail. The County Director of Education may, however, request a senior National Government Treasury officer to perform this regular task on his/her behalf, and advise him/her accordingly.
 - e) At the beneficiary primary schools, the designated bookkeeper will prepare monthly bank reconciliation statement by the 15th day of the following month. The Head Teacher will be responsible for reviewing and signing the reconciliation without fail.

10. The following chart summarises the bank reconciliation process.



6.4 Operation of Petty Cash Floats

- The Head of the PCU will authorise the keeping of a petty cash float for the PCU and the sub-implementers to cater for small eligible purchases and general office operating expenses related to the project. The float limits or ceilings will be as indicated below:

Project Spending Unit	Petty Cash Float Ceiling (Kshs)
MOE PCU	50,000
TSC	20,000
KNEC	20,000
County Director of Education's Office	20,000
Primary School	10,000

2. No individual payments at each of the project's spending units exceeding the limits shown in the table below will be made out of the petty cash float.

Project Spending Unit	Payment Limit (Kshs)
MOE PCU	10,000
TSC	5,000
KNEC	5,000
County Director of Education's Office	3,000
Primary School	2,000

3. The Head of the PCU and the designated Project Manager at each of the project sub-implementers will take steps to ensure that the above payment limits are not exceeded through such irregular schemes as "transaction splitting", "procurement splitting" and such other financial improprieties.
4. The petty cash float will be replenished from the spending unit's bank account when the float balance reaches or drops below the respective individual payment limits indicated in the table above.
5. Each spending unit will maintain a full-fledged Petty Cash Book in columnar form so as to capture the main expenditure categories to ease extraction of information for reporting purposes. A general columnar format would be as follows:

Date	Description	Receipts	Payments	Running Balance	Analysis of Payments/Expenditures					
					Cat 1	Cat 2	Cat 3	Cat 4	Cat 5	Cat 6

These totals are extracted and included in financial reports

6. Petty cash will be kept in a lockable office safe, preferably fireproof, under the custody of a responsible project officer. For this purpose, the petty cash will be in the custody of the officers shown in the table below.

Project Spending Unit	Officer Responsible for Petty Cash
MOE PCU	Designated Project Accountant
TSC	Designated Project Accountant
KNEC	Designated Project Accountant
County Director of Education's Office	County Project Coordinator
Primary School	Head Teacher (or designate)

7. In the event that the officer responsible for petty cash is absent for prolonged periods of time for whatever reason, the Head of the project spending unit will designate another appropriate officer for that purpose, which will include maintenance of the Petty Cash Book.
8. The Head of each project spending unit will regularly, preferably on monthly basis, but also at random, review the Petty Cash Book for accuracy, completeness and for reconciliation of the book balance with the available physical cash, and will take steps to conclusively address and resolve any discrepancies noted, including recovery of shortages from the salaries of the responsible officers.

6.5 Operation of Temporary Imprests

1. The issuance of imprest to project staff will be done in accordance with the most recent National Treasury Circular on Imprest, with modifications as contained in this Manual.
2. An imprest is a form of cash advance or a “float” which the Head of the PCU or designated Project Manager at the sub-implementers may authorize to be issued to officers in furtherance of official duties and for which payments cannot be conveniently made through the bank account.
3. Imprest is issued for specific purposes, and any payments made from it must be only for the specified eligible purposes. As per GOK FM Regulations, imprests are of three types:
 - a) Temporary (safari) imprest
 - b) Standing imprest – this is replaced with the Petty Cash Float in this Manual
 - c) Special imprest – this is outlawed in this Manual
4. For the avoidance of doubt, only temporary (safari) imprests are authorized under this Manual. Any other form of imprest would amount to ineligible expenditure to be refunded immediately to the project. This action is deemed necessary to limit the risk susceptibility of liquid cash to misuse and embezzlement especially where a transparent accountability regime is difficult to impose and enforce without difficulty.
5. Temporary (safari) imprests are issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation and incidental expenses.
6. Unless there are compelling reasons to do otherwise (which must be provided to and accepted by the approving officer), temporary imprests will be issued to project staff through direct transfers to their personal bank accounts.
7. Before approving and issuing temporary imprests, it will be a requirement for the Head of the PCU and the designated Project Managers at the sub-implementers, to ensure that:
 - a) Adequate funds are available for the intended item of expenditure; that is, the vote book (commitments) controller has certified that adequate funds are available against the intended items of expenditure;
 - b) The imprest applied for is for approved project activities as per the approved work plan. To this end, the relevant technical officer will certify the appropriateness of the imprest against the approved activities in the work plan and budget;
 - c) The specific objective of the journey cannot be achieved by other cheaper means;
 - d) The applicant does not have outstanding imprests, that is, the previous imprest has been fully accounted for or surrendered and that the applicant’s immediate supervisor has confirmed he/she has received all relevant back-to-office reports and expenditure returns on the previous imprest issued to the applicant;
 - e) The applicant’s immediate supervisor has confirmed in writing that a physical examination has been conducted on purchases of stores and/or services; and
8. A temporary imprest holder is required to account for or surrender the imprest within 48 hours of returning to the duty station or after performing the task for which the imprest was issued.
9. Imprest cash surrendered should be banked intact and should not be treated as part of and included in the petty cash float.
10. In the event of the imprest holder failing to account for or surrender the imprest on the due date:

- a) A follow up will be made to ensure that the imprest is surrendered before the expiry of the next 7 days;
- b) The Head of PCU or the designated Project Manager at each of the sub-implementers is required to take prompt action to recover the full amount from the salary of the defaulting officer in the month of default; and
- c) Where the Head of the PCU or the designated Project Manager at each of the sub-implementers does not control the payment of the officer's salary in question, and therefore would not be able to recover the outstanding imprest, the matter will be escalated upward to the following institutional organs for appropriate recovery action.

Project Spending Unit	Officer Responsible for Petty Cash	Escalate Matter to the following Organs
MOE PCU	Designated Project Accountant	PS-Education
TSC	Designated Project Accountant	CEO-TSC and PS-Education
KNEC	Designated Project Accountant	CEO-KNEC and PS-Education
County Director of Education's Office	County Project Coordinator	County Director of Education and PS-Education
Primary School	Head Teacher (or designate)	BOM, CEO-TSC and PS-Education

11. At no time will a second imprest be issued to any officer before the previous imprest has been surrendered or recovered in full from his salary.
12. If imprest is to be recovered from any officer in instalments, then the Head of the PCU must personally authorize such recovery regime because it is no longer an imprest but an unauthorized loan or advance from project funds.
13. It is the responsibility of the Head of the PCU and the designated Project Manager at each of the sub-implementers to safeguard project resources entrusted to them by ensuring that:
 - a) Imprests are accounted for immediately after the official activity and appropriate expenditure documents obtained from all imprest holders.
 - b) Where imprest has been recovered from defaulting imprest holders such amounts are banked in the Project Bank Accounts intact.
 - c) Appropriate disciplinary action is taken against the project officer involved in the misuse and mishandling of the imprest facility.
14. Imprest cash surrendered by officers in the normal course of business should also be banked intact and should not be treated as part of and included in the petty cash float.

6.6 Project Allowances and Per Diems

1. In order to minimize potential incidences of ineligible expenditures due to misunderstanding involving project staff allowances and per diems, the following guidelines in respect thereof will apply at all levels of project implementation:
 - a) Travel and transport costs – Receipts for all authorized local travel and air travel will be required to support such travel and other incidental costs in submitting imprest surrenders and accountabilities. However participants undergoing training organized by the project at all levels will be paid allowances and reimbursed transport costs at rates approved by the Principal Secretary on 17 June 2016 and upon signing against their details which will include full name,

personal TSC number, organisation, work station, telephone number, and email address where available.

- b) Purchase of fuel for personal vehicles will not be reimbursable;
 - c) Salary top-ups to civil/public servants are not allowed under the project;
 - d) Honorarium, internal consulting fees by civil servants on GOK payroll and sitting allowances are all not allowed for attending workshops and/or any committee or any other kind of meetings. However the above allowances may be payable from GOK funds which must be clearly and identifiably budgeted for under the project as GOK counterpart contributions.
 - e) The rates of per diem for contracted consultants will be negotiated and reflected in their consultancy contracts. However, the governing per diem rates will be agreed between the PCU and the World Bank, but such rates will not be higher than equivalent UNDP rates for various categories of consultants.
2. The Head of the PCU will always seek to consult with the World Bank as and when a situation arises that requires informed management judgement involving project staff allowances, per diems, and similar matters.
 3. Notwithstanding the guidance in paragraph 6.6 (1) (d) above, normal meeting allowances may be paid out of project funds during a meeting of a beneficiary primary school's SMC/BOM at which the only agenda for deliberation involves GPE project implementation activities. However, for such allowances to be eligible, they must have been included in the school's approved work plan and budget.

6.7 Control over Stock/Inventory

1. It will be the responsibility of the Head of the PCU and the designated Project Manager at each of the sub-implementers to take adequate measures to control and safeguard any stocks and inventories that are acquired using project funds.
2. Stocks or inventories acquired from project funds may include textbooks, teacher guides, and items of stationery, equipment, consumables and other items that need to be stored and issued regularly for repeated uses.
3. On receipt, goods should be verified against the local purchase order (LPO) in terms of quantity and quality specifications. Where necessary, their physical condition should be verified with the help of a technical expert.
4. The Counter Receipt Voucher (S13)² is prepared and certified by the receiving officer to confirm that the ordered goods have been received in the right condition and as per order specifications.
5. Issues from stores should be signed against the Consumables Stock Register³ by the issuer and the recipient. All requisitions shall be recorded in the Counter Requisition and Issue Voucher (S11)³.
6. Access to stocks kept in stores must be restricted to authorized personnel and must be kept under lock and key at all times.
7. Stocks must also be protected from unnecessary expose that accelerate their deterioration such as unfavourable weather conditions, dampness, insects, excessive sunlight, etc. Stocks should therefore be regularly checked to ensure their continued good condition.

² Or equivalent record at PCU, TSC, KNEC and Participating Counties and a simplified record at Beneficiary Primary Schools

8. All effort should be made to ensure that all store items are properly and systematically arranged for ease of identification and inspection.
9. Stock control procedures not included above will follow existing GOK regulations.

6.8 Control over Fixed Assets

1. The Head of the PCU and the designated Project Manager at each of the sub-implementers will be responsible for ensuring that all fixed assets acquired from project funds and placed under their care are safeguarded against misuse, theft or malicious damage.
2. It is the responsibility of the Head of the PCU, working closely with the designated Project Manager at each of the sub-implementers, to ensure that adequate checks against asset misuse, theft, and fraud or irregularities are effectively put in place and ensure that those responsible for such malpractices are promptly dealt with in accordance with the law.
3. Access to project fixed assets will be restricted to authorized project personnel only. Procedures will be put in place to ensure evidence of such authority such as the use of motor vehicle work tickets.
4. A fixed assets register (FAR) in the general form and content as provided in the table below [see 6.8 (7) below] will be maintained and kept up to date at both the PCU and at each of the sub-implementers (where fixed assets are acquired) to provide a reasonably comprehensive record of all the fixed assets of the project at each spending unit.
5. All fixed assets should be entered in the FAR, which should be updated promptly with every new fixed asset purchase and/or disposal.
6. Although they may appear as fixed assets on account of their ability to benefit many financial years, small-value items such as staplers, paper punches, drinking glasses and trays, thermos flasks, wall clocks, and such items need not be included in the FAR as “fixed assets”. Rather, they should be treated as “expenses” under the appropriate category in the GOK SCOA.
7. The project fixed assets will be reported in ‘memorandum’ form in the annual project financial statements. To this end, the PCU will, on annual basis, consolidate the FARs from the PIUs with its own to produce one comprehensive FA.
8. The FAR will be adopted from the following general format.

Project Name:.....P.O. Box:.....Tel:.....									
Fixed Assets Register as at (date):.....									
Date of Receipt	Main Asset Class	Item Description	Tag/Code No.	Serial No.	CRV No.	Location	Original Cost (Kshs)	Assigned Officer	Condition of Use
Total									

For project purposes, the main fixed asset classes will include: Furniture & Fittings, Computers & Related Equipment, Office Equipment (photocopiers, telephones, calculators, etc), Motor Vehicles, Motor Cycles and Bicycles.

9. All project fixed assets will be uniquely tagged with project labels for ease of identification.
10. Any losses of assets (fixed assets, cash or stocks) should be promptly reported to the Head of the PCU and other relevant authorities for necessary action.
11. The Head of the PCU will take steps to ensure that appropriate insurance covers are taken for all high-value project fixed assets.
12. Towards the close of the GPE project, the GOK and World Bank will consult to review the status of the project's fixed assets at each implementing entity with a view to determining their final ownership and custody.

6.9 Project Internal Audit and Oversight

6.9.1 National Level Internal Audit and Oversight

1. The MOE Internal Auditors will be responsible for the project's internal audit reviews at the national implementation level. They will conduct periodic (preferably, semi-annual) audits of project's operations, systems and financial transactions at the PCU, TSC and KNEC, as part of internal control to provide reasonable assurance that the resources provided to the project at that level have been put to proper and intended uses.
2. The Head of MOE Internal Audit Unit may, at his/her own discretion, "outsource" TSC and KNEC internal audits to those institutions' internal audit departments upon assessing their capacity and upon mutually agreeing the audit terms of reference. Where internal audit is outsourced, the TSC and KNEC internal auditors will report to the Head of MOE Internal Auditors in relation to the audit of the project's activities.
3. The terms of reference (TORs) for the semi-annual internal audit reviews will be drawn from all relevant sources, including, the project legal financing agreement, the project appraisal document (PAD), regular GOK and World Bank FM regulations, this Manual, the internal auditors' judgement as to sound FM practices, etc.
4. The Head of the PCU and the designated Project Managers at TSC and KNEC will take all necessary steps to ensure that the internal auditors have unhindered access to project sites, premises, assets and records, and are properly facilitated to conduct their duties.
5. Before completing the semi-annual reports, the Internal Auditors will discuss their draft reports with the respective management of the project sub-implementers under audit so as to secure their responses on audit findings and recommendations included in the internal audit reports.
6. At a minimum, the semi-annual internal audit reports will contain narratives regarding the following matters:
 - a) Audit observation or finding or weakness;
 - b) Impact or potential impact;
 - c) Recommendations for improvement; and
 - d) Project management comment

7. The finalized individual semi-annual internal audit reports will be shared as per the following table within 45 days of the end of the relevant quarter.

Internal Audit Report for:	To be Shared with
MOE PCU	<ul style="list-style-type: none"> ▪ PCU Coordinator ▪ PS-Education
TSC Project Unit	<ul style="list-style-type: none"> ▪ Designated TSC Project Manager ▪ PCU Coordinator ▪ PS-Education ▪ TSC CEO
KNEC Unit	<ul style="list-style-type: none"> ▪ Designated TSC Project Manager ▪ PCU Coordinator ▪ PS-Education ▪ KNEC CEO

8. The Head of MOE Internal Audit Unit will also merge all of the above three national level project audit reports into one semi-annual report and submit it to the PS-Education and the PCU Coordinator within 45 days of the end of the relevant quarter. The latter will forward a copy to the World Bank within two weeks of receipt of the consolidated semi-annual internal audit report.
9. Accordingly, as far as practically possible, the internal audits at the three project locations should be synchronized to cover the same period so as to enable the production of one comprehensive project internal audit report with similar points of reference.

Important Note: Time allowing, the consolidated internal audit report, incorporating management comments, should be reviewed and discussed with the MOE's Audit Committee, if functional. The Head of the PCU, the designated Project Managers at TSC and KNEC, and the Internal Auditors (and other project officers, as deemed appropriate) should attend the meeting with the Audit Committee. The report may be revised or finalized in accordance with the Committee's recommendations or approval.

10. The Head of the PCU and the designated Project Managers at TSC and KNEC will be primarily responsible for ensuring that appropriate corrective actions are taken to address and conclusively resolve the issues or concerns raised by the internal auditors and/or other internal inspection reviews.
11. Subsequent internal audits will follow up and confirm whether previous audit recommendations have been implemented satisfactorily, and indicate this in their subsequent reports.

6.9.2 County Level Internal Audit and Oversight

1. The project's participating counties will be audited by the School Audit Unit (SAU), at least once during each financial year of the project's lifespan.
2. For this purpose, the SAU will work closely with respective County Project Coordinators and the County Treasury accountant designated as the Project Accountant.
3. The terms of reference (TORs) for the annual internal audit reviews will be drawn from all relevant sources, including, the project legal financing agreement, the project appraisal document (PAD),

regular GOK and World Bank FM regulations, this Manual, the internal auditors' judgement as to sound FM practices, etc.

3. The County Project Coordinator, working with the County Treasury and the County Director of Education (CDE) will take all necessary steps to ensure that the SAU auditors are allowed unhindered access to project sites, premises, assets and records, and are properly facilitated to conduct their duties.
4. Before completing the annual reports, the SAU Auditors will discuss their draft reports with the County Project Coordinator and the County Director of Education so as to secure their responses on audit findings and recommendations included in the SAU reports.
5. At a minimum, the annual SAU report for each participating county will contain narratives regarding the following matters:
 - e) Audit observation or finding or weakness;
 - f) Impact or potential impact;
 - g) Recommendations for improvement; and
 - h) Project management comments
6. The finalized individual county annual SAU reports will be shared with the following MOE officers within 45 days of the end of the audit:
 - a) County Project Coordinator
 - b) County Director of Education
 - c) PCU Coordinator
 - d) Director of Basic Education
 - e) PS-Education
7. The Head of the School Audit Unit will also merge all the annual county SAU reports into one annual report and submit it to the PS-Education, the PCU Coordinator and the Director of Basic Education within 45 days of the end of the audit. The PCU Coordinator will forward a copy to the World Bank within two weeks of receipt of the consolidated annual county SAU report.
8. It will be the responsibility of the PCU Coordinator, working with County Project Coordinators, to take appropriate steps and coordinate county-level efforts to ensure that agreed SAU remedial recommendations are implemented to address and conclusively resolve all audit issues and concerns raised.

6.9.3 School Level Internal Audit and Oversight

1. The project's beneficiary primary school will be audited by the School Audit Unit (SAU), at least once during each financial year of the project's lifespan.
2. For this purpose, the SAU will work closely with respective Head Teachers, County Project Coordinators and the officer designated as the bookkeeper at school level.
3. The terms of reference (TORs) for the annual internal audit reviews will be drawn from all relevant sources, including (as appropriate), the project legal financing agreement, the project appraisal document (PAD), regular GOK and World Bank FM regulations, this Manual, the internal auditors' judgement as to sound FM practices, etc.
4. The Head Teacher, working with the County Project Coordinator and the County Director of Education (CDE) will take all necessary steps to ensure that the SAU auditors are allowed unhindered access to project sites, premises, assets and records, and are properly facilitated to conduct their duties.

-
5. Before completing the annual reports, the SAU Auditors will discuss their draft reports with the Head Teacher, the SMC, the County Project Coordinator, and the County Director of Education (or designate) so as to secure their responses to audit findings and recommendations included in the SAU reports. Nonetheless, the official comments to be included in the audit report will be those of the Head Teacher, since he/she is the principal project implementing officer at school level.
 6. At a minimum, the annual SAU report for each beneficiary primary school will contain narratives regarding the following matters:
 - a) Audit observation or finding or weakness;
 - b) Impact or potential impact;
 - c) Recommendations for improvement; and
 - d) Head Teacher comments.
 7. The finalized individual school-level annual SAU reports will be shared with the following officers within 45 days of the end of the audit.
 - a) School Head Teacher and SMC
 - b) County Project Coordinator
 - c) County Director of Education
 - d) PCU Coordinator
 - e) Director of Basic Education
 - f) PS-State Department of Education
 8. The Head of the School Audit Unit will also merge all the annual school SAU reports into one annual report by county and submit it to the PS-Education, the PCU Coordinator and the Director of Basic Education within 45 days of the end of the audit. The PCU Coordinator will forward a copy to the World Bank within two weeks of receipt of the consolidated annual county-based school SAU report.
 9. It will be the responsibility of the PCU Coordinator, working with County Project Coordinators and Head Teachers, to take appropriate steps and coordinate school-level efforts to ensure that agreed SAU remedial recommendations are implemented to address and conclusively resolve all audit issues and concerns raised.

7.0 PROJECT FINANCIAL REPORTING ARRANGEMENTS

7.1 Overview of Financial Reporting

1. The responsibility for the preparation of overall project financial statements (PFSs) including adequate disclosures rests with the MOE PCU. The PCU will prepare the PFSs in accordance with IPSAS.
2. To this end, the Head of the PCU will have primary responsibility for ensuring that all project in-year and end-year financial reports and statements are prepared accurately and on a timely basis, and submitted as required.
3. The project books of account will provide the basis for the preparation of the PFSs by the PCU and will be designed and established to reflect all financial transactions in respect of the project for each financial year.
4. All project financial reports and statements will, therefore, be generated from the project's accounting records so that an internal or external reviewer is able to trace the reported financial figures back to the accounting records without any difficulty.
5. Project financial reports will be a critical element in the continued smooth implementation of project activities, as they will provide reasonable assurance regarding the efficient, effective and economical use of World Bank/GPE resources channelled to the project.
6. It is only through financial reporting that project management will be able to effectively communicate with GOK, World Bank and other outside stakeholders to demonstrate its project stewardship responsibilities. Therefore, the submission of accurate, timely and complete financial reports within the stipulated deadlines is a fundamental requirement of the project. The continued funding of project activities will be dependent upon the submission of both in-year and end-year financial reports within the stipulated timelines as required.
7. The presentation of the financial reports will be according to the eligible expenditure category descriptions contained in the Financing Agreement and submitted SOEs.

7.2 In-Year Financial Reports

1. The Head of the PCU will be primarily responsible for the preparation of in-year quarterly unaudited Interim Financial Reports (IFRs) which will be submitted to the World Bank, through the National Treasury, within 45 days after the end of each quarter. To meet this deadline, all sub-implementers will be required to submit their reports to the PCU within 30 days after the end of each quarter.
2. The quarterly IFR will cover the entire project financial transactions within the quarter at both the PCU and the sub-implementers (excluding beneficiary primary schools). To achieve this, the PCU Project Accountant will require and receive from the sub-implementers their receipts and expenditure reports for the quarter. The quarterly IFR will be a useful tool for financial monitoring and reporting.
3. For the purposes of the quarterly IFR, disbursement of grants to beneficiary primary schools will be treated as expenditure at the point disbursement; as such no quarterly financial reports will be required from the schools. As noted elsewhere in this Manual, accountability at school level will be monitored and reported by the School Audit Unit (SAU) once a year.

4. The PCU Project Accountant will have prepared the PCU's receipts and payments statement for the quarter. This will be consolidated with the receipts and expenditure reports from the sub-implementers to produce one comprehensive project receipts and expenditure report for the quarter.
5. The project receipts and expenditure report for the quarter will be tailored to fit into the agreed format and content of the quarterly IFR. For this purpose, the PCU and the sub-implementers will prepare the reports in the same format to facilitate the consolidation mechanics at the PCU.
6. The quarterly IFR will be signed by the PCU Project Accountant and the Head of the PCU as a statement to the effect that project resources have been used efficiently, economically and effectively for the intended project purposes.
7. The quarterly IFR will:
 - a) Reconcile opening bank/cash balances, receipts during the quarter, the quarter's expenditures, and closing bank/cash/imprest balances;
 - b) Show the quarter's expenditures, and the closing cumulative expenditure for each expenditure category;
 - c) Provide a summary list of SOEs submitted supporting World Bank replenishments to the Project Designated Account;
 - d) Provide a summary list of any direct payments made by the World Bank on behalf of the project;
 - e) Provide a summary list of any monetary GOK contributions (revenue of A-in-A) made to the project;
 - f) Be accompanied by a reconciliation statement showing how any foreign exchange difference, reported during the quarter arose;
 - g) Be accompanied by a reconciled statement of the US Dollar denominated Designated Account;
 - h) Be accompanied by bank reconciliation statements for the Kshs project accounts at the end of the quarter in support of the closing bank balances at PCU, TSC and KNEC;
 - i) Be accompanied by a summary list of bank account balances of participating counties, summarized from their bank reconciliation statements at the end of the quarter;
 - j) Be accompanied by a summary list of petty cash balances held all the PCU, TSC, KNEC and participating counties at the end of the quarter;
 - k) Be accompanied by a summary list of outstanding imprest balances held all the PCU, TSC, KNEC and participating counties at the end of the quarter;
 - l) Be in form and content agreed with IDA, generally as illustrated below:

Interim un-audited Financial Report (IFR)								
Project Name: GPE Project								
Sources and Uses of Funds (Receipts and Payments) Statement								
for the Quarter Ended..... (In Kshs)								
		Current Quarter Ended.....			Cumulative for Project Life to Date			
	<u>Ref to Annex</u>	Actual	Planned	Variance	Actual	Planned	Variance	Cash Projection for Next Six Months
Sources of Funds/ Receipts								
Opening Cash Balance								

Designated account (USD)								
Project Main Account (Kshs)								
TSC Project Account (Kshs)								
KNEC Project Account (Kshs)								
Counties' Project Accounts (Kshs) (give list)								
Petty Cash (Kshs) (give list)								
Outstanding Imprests (Kshs) (give list)								
Total								
Add: Receipts								
WB Replenishments to DA (list SOEs)								
WB Direct payments (if any, give list)								
GOK Contributions (if any, give list)								
(A) Total Financing (Opening Bal + Receipts)								
Less: Payments/Expenditure by Category: (as per Legal Agreement classification)								
Category 1								
Category 2								
Category 3								
Category 4, etc								
Foreign Exchange Differences								
(B) Total Uses of Funds/Payments by Category								
(C=A-B) Expected Closing Cash Balance								
Actual Cash Balances								
Designated account (USD)								
Project Main Account (Kshs)								
TSC Project Account (Kshs)								
KNEC Project Account (Kshs)								
Counties' Project Accounts (Kshs) (give list)								
Petty Cash (Kshs) (give list)								
Outstanding Imprests (Kshs) (give list)								
(D) Actual Total Closing Cash Balance								

Note: Total balance 'C' should be equal to total balance 'D'.

8. The Head of the PCU may, from time to time, require the PCU sub-implementers to prepare any other in-year financial reports for internal management decision making purposes.

7.3 End-Year Financial Reports

1. The Head of the PCU will also be primarily responsible for the preparation and submission of the statutory annual end-year project financial statements (PFSs).
2. The consolidation mechanisms similar to those used for the preparation of the quarterly IFR will be useful in putting together the draft end-year PFSs.

3. The PFSs will include:
 - a) **Statement of Receipts and Expenditure:** A statement of funds received, showing funds from the World Bank (GOK contributions, if applicable) separately, and of expenditures incurred in line with eligible category descriptions.
 - b) **DA Activity Statement:** A summary of the activity in the Designated Account;
 - c) **Balance Sheet:** A statement of financial position (if deemed necessary);
 - d) **Accounting Policies:** A summary of the principal accounting policies that have been adopted
 - e) **Explanatory Notes:** Explanatory narratives, tables and the make-up of amounts appearing in the underlying financial statements, deemed necessary to provide greater clarity to readers of the financial reports;
 - f) **List of Project Assets:** A list of material fixed assets acquired or procured to date with project funds classified by the main asset classes;
 - g) **Outstanding Obligations:** A list of outstanding liabilities/commitments at the end of the year; and
 - h) **Annex:** As an Annex to the PFSs, a reconciliation of the amounts as “received by the project from the World Bank”, with those shown as being disbursed by the Bank.
4. The draft end-year PFSs will be submitted to the Office of the Auditor General (KENAO) for external audit purposes within three (3) months after the financial year end, that is, by the 30th day of September of each year.
5. When submitting the draft end-year PFSs to KENAO, the Head of the PCU may also send a copy, together with the cover letter, to the World Bank by the same date to confirm submission within the deadline.

8.0 PROJECT EXTERNAL AUDIT ARRANGEMENTS

8.1 Auditors and Audit Report

1. As required by law, the external audit of the draft end-year PFSs will be conducted by the Office of the Auditor General (KENAO).
2. The audited project financial PFSs, incorporating the audit opinion/report, will be submitted to the World Bank, through the National Treasury, within six (6) months after the financial year end, that is, by 31-December of each year.
3. The Head of the PCU will be responsible for all audits and, as per the law, he/she will take all necessary steps to ensure that the external auditors have unhindered access to project sites, premises, assets and records, and are properly facilitated to conduct their duties.
4. The external auditors will conduct the annual audit in accordance with the International Standards on Auditing (ISAs), and in the course of their verification work, the auditors will be expected to visit the project sites and offices, and interview project personnel as appropriate.
5. The Auditor General will issue an opinion on the PFSs. The annual audit report on the PFSs should include a separate paragraph highlighting key internal control weaknesses identified during the audit, and a separate paragraph on any material non-compliance with the terms of the project financing agreement and other applicable laws and regulations.
6. If the GOK (through the MOE PCU) fails to provide any of the audited Financial Statements required in accordance with, and within the period of time specified in, the Project Financing Agreement, the World Bank may at its discretion decide not to accept Withdrawal Applications (WAs) supported by Statements of Expenditure (SOEs), even if accompanied by specific records.
7. Grants to schools will be audited 100% by the Schools Audit Unit (SAU). The Head of the School Audit Unit will merge annual county SAU reports into one annual report and submit it to the PS-Education, the PCU Coordinator and the Director of Basic Education within 45 days of the end of the audit. The PCU Coordinator will forward a copy to the World Bank within two weeks of receipt of the consolidated annual county SAU report.

8.2 Objectives of the Audit

1. The objective of the external audit of the PFSs is to enable the Auditor General to express a professional opinion(s) on the financial position of the project at the end of each financial year, and on funds received and expenditures incurred for that period.
2. The Auditor General is responsible for forming and expressing opinions on the PFSs. The auditor will carry out the audit of the project in accordance to ISAs, as promulgated by the International Federation of Accountants (IFAC).
3. The auditor will verify that the PFSs have been prepared in accordance with the agreed accounting standards (IPSAS) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date.

8.3 Scope of the Audit

1. As part of the audit process, the audit will include such tests and auditing procedures as the Auditor General will consider necessary under the circumstances and the auditor may request from the PCU

and the sub-implementers written confirmation concerning representations made in connection with the audit.

2. The auditor will pay special attention as to whether:
 - a) World Bank financing has been used in accordance with the conditions of the project financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
 - b) Goods, works and services financed have been procured in accordance with the financing agreement including specific provisions of the World Bank Procurement Policies and Procedures;

Important Note: Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of **International Standard on Auditing 620: Using the Work of an Expert**. Consideration to use the work of experts should be brought to the early attention of the PCU and the World Bank for mutual agreement and appropriate guidance.

- c) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using the SOE method of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
 - d) The project designated account (DA) has been maintained in accordance with the provisions of the financing agreement and funds disbursed out of the DA were used only for the purpose intended in the financing agreement;
 - e) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (including this Manual.) were followed and complied with;
 - f) Financial performance of the project is satisfactory;
 - g) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or sub-implementers in line with the financing agreement; and
 - h) Ineligible expenditures included in Withdrawal Applications (WAs) are identified for subsequent reimbursement to the DA. These should be separately noted in the audit report.
3. In complying with ISAs, the auditor is expected to pay particular attention to the following matters:
 - a) **Fraud and Corruption:** Consider the risks of material misstatements in the PFSs due to fraud as required by *ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud.
 - b) **Laws and Regulations:** In designing and performing audit procedures, evaluating and reporting the results, consider that non-compliance by the implementing agency and sub-implementer with laws and regulations may materially affect the PFSs as required by *ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements*.

- c) **Governance:** Communicate audit matters of governance interest arising from the audit of the PFSs with those charged with governance of the project as required by *ISA 260: Communication of Audit Matters with those Charged with Governance*.
 - d) **Risks:** In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the project financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by *ISA 330: The Auditor's Procedures in Response to Assessed Risks*.
4. In addition to the audit of the PFSs, the auditor is required to verify all SOEs used as a basis for the submission of WAs to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual SOE WAs by specific reference number and amount. The total withdrawals under the SOE procedures should be part of the overall reconciliation of World Bank disbursements described under end-year financial reporting [Section 7.3 (3) (h)] above.
 5. In conjunction with the audit of the PFSs, the auditor is also required to review the activities of the project DA, which usually comprises:
 - a) Advance deposits received from World Bank;
 - b) Replenishments substantiated by WAs;
 - c) Interest that may have been earned on the accounts, and which belongs to the GOK; and
 - d) Withdrawals related to project expenditures

8.4 Auditors' Management Letter

1. The Management Letter (ML) is a formal letter from the auditors, addressed to the project's management, highlighting internal control weaknesses and other challenges identified during the audit, and presents the auditors' specific recommendations to improve such internal control and other weaknesses and challenges.
2. In addition to the audit report, the auditor will prepare a management letter, in which he/she will:
 - a) Give comments and observations on the accounting records, systems, practices and controls that were examined during the course of the audit;
 - b) Identify specific deficiencies or areas of weakness in systems, practices and controls, and make recommendations for their improvement;
 - c) Report on the degree of compliance with each of the financial covenants in the project financing agreement and give comments, if any, on internal and external matters affecting such compliance or non-compliance;
 - d) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
 - e) Give comments on the extent to which outstanding issues/qualifications have been addressed;
 - f) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
 - g) Bring to the PCU's attention any other matters that the auditor considers pertinent, including ineligible expenditures.
3. Ideally, the management letter should also include official responses from the implementing agency (PCU) to the issues highlighted by the auditor.

4. The final ML will contain the following information, which may be presented in tabular form as follows:

Audit observation or finding/weakness	Impact of the finding/weakness	Recommendations for improvement	Project Management (PCU) comments

5. The Head of the PCU will submit a copy of the final Management Letter to the World Bank and the National Treasury when submitting the audited financial statements of the project, that is, by the 31st day of December of each year.

8.5 Important Documents for Audit

1. The auditors should have unrestricted access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditors. Available information from the World Bank, through the PCU, should include copies of the relevant project appraisal document, project financing agreement, financial management assessment reports, supervision mission reports and project implementation status reports.
2. The auditors will also obtain written confirmations of amounts disbursed by and outstanding at the World Bank in relation to the project.
3. It is highly desirable that the auditors should become familiar with the World Bank's Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank's financial reporting and auditing requirements.
4. The auditor should also become familiar with World Bank Procurement Guidelines, which can be obtained from the project implementing agency (PCU).
5. In addition, the auditors should be familiar with the Bank's Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: May 2006.
6. The above documents are available on the World Bank's website and could also be obtained from the Task Team Leader at the Kenya Country Office of the World Bank.