



LIMURU DAIRY FARMERS CO-OPERATIVE SOCIETY LTD.

MAZIWA HOUSE, 4TH FLOOR
P.O. Box 8-00217, LIMURU

Tel: 020-2010611
Cell: 0713-833814

limurudairy@gmail.com
info@limurudairy.co.ke
www.limurudairy.co.ke

FINANCIAL POLICY AND PROCEDURES. JUNE 2023

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Terms and Definitions

- Society: Limuru Dairy Farmers Co-Operative Society Limited.
- Manual: A system of approved policy statements and corresponding procedural guidelines and supporting forms that direct an organization towards its operational goals.
- Policy: A stated course of action with a defined purpose and scope to guide decision-making under a given set of circumstances within the framework of corporate objectives, goals and management philosophies.
- Procedure: A series of prescribed steps followed in a definite regular order which ensure adherence to the guidelines set forth in the policy to which the procedures applies.
- Activity: An action, element, or decision representing a prescribed step in the procedure process.
- Task: A detailed component of an activity specifying required behavior to complete the activity.
- Form: A pre-formatted document containing instructions and placeholder for data entry to monitor progress through a particular procedure and to ensure proper record-keeping.

INTRODUCTION.

This financial policy document outlines the policies and procedures that Limuru Dairy will follow in managing its finances. The purpose of this document is to ensure that the company's finances are managed in a responsible and efficient manner.

The document is divided into the following sections:

- **Authority:** This section defines who has the authority to make financial decisions for the company.
- **Segregation of duties:** This section ensures that no one person has complete control over any financial transactions.
- **Risk management:** This section identifies the risks that the company faces, and how these risks will be mitigated.
- **Internal controls:** This section outlines the policies, procedures and technical safeguards that protect organizations' assets by preventing errors and inappropriate actions in achievement of objectives.
- **Financial reporting:** This section specifies the types of financial reports that will be generated, and how often they will be generated.
- **Review and update:** This section specifies how often the financial policy document will be reviewed and updated.

ORGANIZATION BACKGROUND.

Limuru Dairy Farmers Cooperative Society Limited (LDFCS) is a farmer-owned cooperative society that was established in 1962. The society is located in Limuru, Kenya, and it is one of the largest dairy cooperatives in the country. LDFCS has a membership of over 11,000 farmers, and it collects and processes over 30,000 liters of milk per day. The society's products include fresh milk, yogurt, and bulk pasteurized milk. LDFCS is committed to providing its members with a fair price for their milk, and it is also committed to providing high-quality dairy products to its customers.

History

LDFCS was founded in 1962 by a group of 76 farmers who were looking for a way to improve the prices they were receiving for their milk. LDFCS has grown significantly since its inception, and it is now one of the largest dairy cooperatives in Kenya.

Mission and Vision

The mission of LDFCS is to "maximize members' returns through enhanced milk production, processing, marketing of quality dairy products, animal feeds and vet services in collaboration with all stake holder."

The vision of LDFCS is to be "to be the home of excellence in the Dairy value chain "

Governance

LDFCS is governed by a Board of Directors, which is elected by the members of the society. The Board of Directors is responsible for the overall management of the society, and it reports to the Annual General Meeting (AGM). The AGM is the supreme decision-making body of LDFCS, and it is held once a year.

Operations

LDFCS collects milk from its members, and it processes the milk into a variety of dairy products. The society also sells animal feeds and veterinary services to its members. LDFCS markets its products through a network of distributors and retailers.

Challenges

LDFCS faces a number of challenges, including:

- Competition from large, multinational dairy companies.
- The high cost of production.
- The low prices that farmers receive for their milk.

Strategies

LDFCS is working to address these challenges by:

- Investing in new technology to improve the efficiency of its operations.
- Developing new products to meet the needs of its customers.
- Working with the government to improve the prices that farmers receive for their milk.

Future Plans

LDFCS plans to continue to grow and expand its operations in the future. The society plans to invest in new facilities, and it plans to expand its product range. LDFCS also plans to enter new markets, both domestically and internationally

AUTHORITY.

The Board of Directors has the ultimate authority over all financial matters. The Board may delegate some of its power to board subcommittees as follows:

- Executive Committee: Approves all payments made by the society.
- Procurement Committee: Approves all major planned purchasing decisions made by the society.
- Staff Committee: Approves all planned hiring, salaries, allowances and staffing decisions made by the society.
- Sales and Extension Committee: Approves all planned expenditures related to Marketing, sales, Milk procurement, collection, farmers' training and member engagement.

The Manager (CEO) is the Principal Accounting Officer for the society. He must approve any financial transaction.

The Chief Accountant is responsible for the day-to-day management of the society's finances.

Other Heads of Departments (HoD's) may have delegated authority to make financial decisions within their areas of RESPONSIBILITY.

SEGREGATION OF DUTIES

The segregation of duties section shall ensure that no one person has complete control over any financial transactions. This is done by dividing the responsibilities for financial transactions among different individuals and departments. For example, the following responsibilities shall be segregated:

- Authorization: Only the following can approve financial transactions
 - Heads of departments
 - Procurement officer
 - Chief accountant/ Deputy head of accounts
 - Manager (CEO)
- Recording: Only the following authorized individuals can record financial transactions:
 - General clerks
 - Accounts clerks
- Custody: Only Heads of Departments can have physical custody of the company's assets.

The authority to incur expenditure is capped as follows:

- HoD's: Kshs. 5,000 cumulative maximum and Kshs 2,500 max per transaction.
- Procurement Officer: Kshs 10,000 max. per transaction and Kshs 50,000 cumulative max.
- Chief Accountant: Kshs 10,000 max. per transaction and Kshs 150,000 cumulative max.
- Manager (CEO): Kshs. 50,000 per transaction max. and Kshs 200,000 cumulative Max.

Once the cumulative MAX. is reached, authority must be sought from the superior officer or the Board as the case may be.

Issue and Distribution

This document remains the property of Limuru Dairy Farmers Co-Operative Society Limited, and no copies shall be reproduced or distributed without the prior authority of the Board of Directors. The Board of Directors or the Manager, as may be delegated, is solely responsible for the control and distribution of this manual. Any member who requires a manual shall submit a written request to the Manager, who authorizes the issue if so directed by the Board. The Manager shall maintain a movement record of all copies of this manual that have been issued.

The Finance Function and Funding.

The Society is funded by member share contributions, entrance fees, and retained earnings. The Finance and Administration department is headed by the Manager (CEO), who coordinates with other business units.

Basic Policy Statement

The Society is committed to sound financial management practices. The entire Society, including the Board of Directors and staff, will work together to ensure that all financial matters of the organization are handled with honesty, equality, respect, dedication, professionalism, integrity, and in the best interests of the Society.

The policies and procedures contained in this manual are designed to:

- Protect the assets of the Society.
- Ensure the maintenance of accurate records of the Society's financial activities.
- Provide a framework of operating standards and behavioral expectations in financial matters.
- Ensure compliance with the Co-operative Societies Act, the Society's bylaws, and International Financial Reporting Standards.
- Ensure that the Society's expenditures and liabilities are incurred only when necessary and in accordance with predetermined estimates.
- Guide the Society's investment objectives, which shall be primarily focused on the strategic plan in place, safety of principal, liquidity, and a competitive rate of return.

Amendments to the Policy

The Manager of the Society is responsible for administering these policies and ensuring compliance with procedures that have been approved by the Board of Directors.

Exceptions to written policies, changes, or amendments may only be made with the prior approval of the Board of Directors at any time.

A review of the policies may be initiated by a written request from an officer of the Society through his or her immediate supervisor or by a committee member and directed to the Board of Directors as needed. The Board of Directors will then consider the amendments and advise accordingly. Any difficulties encountered in the implementation of this policy shall be referred to the Board of Directors.

Applicability of Procedures

These procedures shall apply to the financial administration of all activities of the Society, except as may be provided by the Board of Directors. Every Board Member and staff member will be expected to familiarize themselves with and operate within the parameters of these policies and guidelines.

RISK MANAGEMENT

The Society recognizes that effective and efficient risk management improves performance, encourages innovative thinking, supports the achievement of Society's objectives, therefore creating and protecting value to all stakeholders. Thus, risk management is a key business process.

The sound and effective implementation of risk management at both strategic and operation levels will help improve the performance of the Society activities and enhance ability to achieve its key objectives.

Limuru Dairy therefore undertakes to implement and continuously improve its risk management framework in order to integrate the process of managing risks into the society overall governance, strategy and planning, management, reporting processes, policies, value and culture.

The Society's risk management will endeavor to;

1. Encourage proactive management
2. Make it more likely for the Society to achieve its objective.
3. Support the identification of threats and vulnerabilities the Society is exposed to.
4. Provide a solid foundation for successful decision making and planning.
5. Improve compliance with Donor requirements, laws, and financial reporting.
6. Minimise financial loses and enhance cost saving.
7. Result in value for money through more efficient use of resources; and
8. Improve stakeholder's confidence and trust.

The Society will adopt the following criterion in risk management;

- **Risk Identification**

This shall involve systematic and continuous identification of potential risks that the Society faces that might impede the achievement of the respective objectives. Risk identification will be performed as part of all major decision making.

- **Risk Analysis**

This shall entail assessing the significance of risks to enable the development of risk **responses**. The likelihood of the risk occurring and potential impact.

- **Risk evaluation**

The Society shall identify the existing processes, controls and practices that act to minimize negative outcomes or those that enhance positive outcomes and assess their strengths and weakness.

- **Risk treatment**

The Society shall decide and formulate effective risk response strategies and plans. Once risks have been analyzed, appropriate risk response will be determined to mitigate risk to an acceptable level within reasonable costs.

A register shall be maintained for all potential risks.

- **Monitoring and review**

Internal Audit

The Supervisory Committee and Internal Audit Department are responsible for performing the internal audit function to ensure compliance, Instituting effective internal controls and risk management. The Supervisory Committee and Internal Audit Department may raise queries in their reports, the manager will respond to the raised queries within 14 days upon submission of the report.

The roles of each is as follows;

Supervisory committee

Supervisory committee is a watchdog committee of 3 (Three) members elected during the general meeting. Its key mandate is to ensure that the organization's compliance and accuracy of financial condition, adequate safeguards for member's intuitional rights and organization procedures and implementation of member's resolutions by the management committee. In particular, they should;

- Verify the effectiveness of organizational internal control systems
- Ensure compliance with all stipulated documentations and procedures.
- Carry out investigations as may be necessary
- Confirm if cash and bank account are reconciled in good time.
- Prepare annual supervisory reports to be presented to members at AGM.

Internal audit unit

Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.

Limuru Dairy Cooperative Society internal audit department will perform the following roles;

- Determine internal audit scope and develop internal audit plans.
- Obtain, analyse and evaluate accounting documentation, previous reports and data.
- Prepare and present reports that reflect audit results and document process.
- Act as an objective source of independent advice to ensure validity, legality and goal achievement.
- Identify loopholes and recommend risk aversion and cost saving measures.
- Maintain open communication with management and board members.
- Document process and prepare audit findings memorandum.
- Conduct follow up audits to monitor management's interventions.
- Engage in continuous development regarding sector's rules, regulations, best practices, tools, techniques and performance standards.

INTERNAL CONTROLS

They are policies, procedures and technical safeguards that protect organizations' assets by preventing errors and inappropriate actions in achievement of objectives in the following categories;

- a. Effectiveness and efficiency of operations.
- b. Reliability of financial reporting; and
- c. Compliance with applicable laws and regulations.

Effectiveness and efficiency of operations not only include safeguarding the assets but also responding to the business risks that face the Society.

Internal control is control by management of what happens within the business. It is a totality of methods that the management has introduced to provide reasonable assurance of the achievement of objectives and avoidance of unwanted outcomes.

Management responsibility

Management comprises effective planning, organizing, staffing, directing and controlling. Each of these must be done well if there is to be effective internal controls. Our internal controls will be preventive, detective and corrective.

Listed below are process controls that will be effected;

Accountable documents

The accountable documents comprise of Requisitions, LPOs, GRNs, receipts, invoices, delivery books, etc.

- Blank accountable documents shall be kept by the administration assistant under lock and key. They shall be pre-printed, serialized and issued systematically.
- Three copies of all accountable documents shall be made: the original for the customer, the duplicate for the file, and the triplicate retained as a book copy.
- Cheques and cash received shall be banked daily.

Cash Management

- A petty cash float shall be maintained for payments below Kshs 10,000.
- The amount of the petty cash float shall be determined depending on the needs of the Society subject to the approval of the Board of Directors.
- The petty cash float shall be maintained on an imprest system.
- Disbursements from the petty cash float shall be signed for against a petty cash voucher.
- Supporting documentation must be obtained for each payment.
- Payments from petty cash shall be recorded in a petty cash book maintained by the accountant.
- The Chief Accountant shall review the petty cash transactions before presenting them for payment.
- The petty cash fund shall be reconciled before the fund is replenished.
- There shall be no advances to employees from petty cash.
- Periodically the Manager and the internal auditor will make spot checks of the petty cash fund.

Bank Reconciliations

- On a monthly basis, the Chief Accountant shall reconcile the bank statement to the cashbook, and notify the Manager of any variance.
- The Chief Accountant will resolve any variance with the assistance of the Manager where necessary.
- Receipts in suspense will be reported to the bank immediately in writing.

Only the Chief Accountant or authorized staff will collect the bank statement at least monthly.

ERP controls

- a) The system employed shall provide an audit trail and different user level passwords.
- b) The Manager and the System Administrator will have all access rights.
- c) The accountants will have access rights to open new accounts, initiate and post transactions.
- d) All reversing entries and adjustments into the system must be done with the prior approval of the Manager.
- e) Verification and reconciliation of total members' payments and deductions shall be done monthly.

FINANCIAL REPORTING.

The society will prepare financial statements on a monthly and annual basis. The financial statements will be prepared in accordance with generally accepted accounting principles (GAAP).

The financial statements will be reviewed by the Board of Directors and the External auditor. The financial statements will be presented to the Annual General Meeting (AGM) for approval. The accountant will also prepare a yearly budget for the following year, which will be reviewed and approved by the Board of Directors and presented to the AGM for approval.

Management Report.

The Chief Accountant will provide the following reports to the Board of Directors:

Type of report	Frequency of reporting
Income and Expenditure Statement	Monthly
Trial Balance	Monthly
Cash Flow Statement	Annually
Receivables Report Payables Report	Monthly
Motor Vehicle Report	Monthly

Balance Sheet	Annually
Audited Reports	Annually

Budgetary Control

The Manager will be responsible for comparing the actual results to the budget and providing explanations for any significant variances. The Chief Accountant will be responsible for preparing the annual budget for the following year. The treasurer will consult with the Board, Manager and Chief Accountant and present the final approved budget to the AGM.

Incomes

- Revenue: Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of the Society when those inflows result in increases in equity, other than increases relating to contributions from shareholders.
- Sources of Income: The main sources of income of the Society shall comprise:
 - Sale of milk and milk products
 - Animal feeds
 - Vet services
 - Membership Entrance fee
 - Interest from bank deposits
 - Other income, such as dividends from investments, sale of Limuru Dairy assets. Dividends shall be recognized when declared and notification received as to the amount payable.

Expenses

- Approval: All expenditure requests will be initiated in writing and approved by the specified authority.
- Payments: The accountant obtains approval to make payments for all invoices from the Manager.

Committee Allowances:

The committee allowances shall be as set by the Board and approved during the AGM.

There are the following allowances:

1. Sitting allowances
2. Travelling allowance
3. Duty allowance
4. Lunch allowance
5. Per diem

Payment procedure

- a) Committee Allowances shall be paid as they fall due.
- b) A schedule summarizing the allowances due to each committee member and the related deductions including tax shall be prepared by the Accountant.
- c) Income Tax deductions for allowances and salaries shall be submitted on or before 9th of every month.

Assets

The Executive Committee is responsible for safeguarding the assets of the Society. The Manager is responsible for ensuring that proper financial management procedures are maintained and that the policies of the Board are carried out.

The Society will maintain a non current asset register, which will include the following information:

- Type of asset
- Description of the asset (Model, make,etc)
- Date of purchase
- Location
- Acquisition cost
- Depreciation rate/useful life
- Residual value /Net book value
- Date of sale (if applicable)
- Serial number of the asset.

Assets valued below Kshs 5,000 will not be included in the non current asset register but will be expensed in the year of purchase.

Depreciation

Depreciation will be computed on a reducing balance basis using the following rates:

- Office Equipment: 12.5%
- Furniture and Fittings: 12.5%
- Motor Vehicle/Cycle: 25%
- Dairy Equipment: 25%
- Machinery: 25% (net of investment deduction)
- Computer Equipment: 30%
- Enterprise Resource Planning Software: 33%
- Loose Tools: 50%
- Water System Equipment: 12%
- Land: Nil
- Buildings: 2.5% (Net of industrial building deductions)
- Software shall be stated on cost less accumulated amortization. The software shall be amortized on a flat rate basis at 33%.

Current Assets

Limuru DCS current assets include cash, cash equivalents, accounts receivables, stock inventory, marketable securities, pre-paid liabilities, these are assets that are convertible into cash within the shortest time possible

The Society's objectives in relation to current assets are to:

- Protect the assets from loss or theft
- Ensure that the assets are available when needed
- Maintain accurate records of the assets

Investments.

The investment policy of the Society shall guide the investment decisions of the Society. Investments shall be made subject to the authority of the Board of Directors. Investments shall be stated in the Society's books at fair value, subject to the provisions of IAS 32 and 39.

The Society will aim to achieve a return on its investments that is in line with its investment objectives. The Society shall diversify its investment portfolio to manage risks by investing in the following financial assets:-

- Money market instruments
- Stock exchange

- Government bonds
- Fixed deposits

Check-off Credit to Members

The Society will support its members by offering 30 days checkoff credit facility against their milk produce. This will include;

- Animal feeds and mineral supplements
- Farm inputs
- Vet services
- Human food

The procedure for the checkoff credit facility is as follows:

- Members must identify themselves by producing their Member Produce Record and Identity Card when applying for the goods and services.
- In case of member's absence, he/she can authorize someone else to act on their behalf by:
 - Issuing an authorization letter duly signed indicating their phone number.
 - Original member's Identity card
- The clerk in charge shall confirm the members credit worthiness.
- After conforming to the stated criteria, goods or services are sold.
- The accounts clerk will forward the reconciled report on milk deductions to the store's manager for final processing by the accounts department on a monthly basis.

This facility has no handling fee or interest charges however in case of late payment or default for a period of over one year a penalty of 10% p.a shall apply.

Accounts receivable

- a) Accurate debtors accounts shall be maintained and updated.
- b) The accountant prepares a status report on all outstanding receivables, on a monthly basis and submits the report to the Board of Directors.

Cash and Bank Balances:

Cheque Payments and maintenance:

- To prevent fraud, all unused cheque books shall be kept in a safe, under the custody of the Chief accountant. Only one cheque book for each account shall be in use at any one time domiciled with the assigned accountant.

- There shall be a cheque register for all unused cheques. Once a cheque book has been used, the stubs shall be presented to the Chief accountant before another one is issued.
- At least three signatories shall be responsible for signing the cheques and the payment vouchers.
- Payments requests for services, goods and works shall be accompanied by supporting documentation.
- Payment vouchers must be pre-printed and pre-numbered.
- Documents against which payments have been made must be stamped "PAID".
- The cheques shall then be forwarded to the manager for confirmation and verification before being signed.
- Updated records of all transactions shall be maintained.
- Voided cheques must be defaced and retained on the cheque stub.
- Blank cheques must never be signed in advance.

Liabilities:

Current Liabilities:

Bonus, accruals and creditors:

- Annual provisions shall be made for bonus payment which will be calculated based on the member's milk delivery during the year. The bonus rate applicable shall be the rate approved by the Annual General Meeting (AGM).
- A schedule of bonus payable including details of the member, deductions and the net payable amount shall be prepared by the accountant.
- Expenses incurred but not paid for shall be accrued monthly and disclosed in the accounts.
- Accurate creditors accounts shall be maintained and updated.
- The statutory deductions shall be paid by the due date to avoid penalties. These dates are as follows:
 - P.A.Y.E 9th of the following month
 - N.H.I.F 9th of the following month
 - N.S.S.F 15th of the following month

Pay as You Earn (PAYE)

Deductions are computed according to the specified rates as stipulated in the graduated scale of the income tax act cap.

A copy of the monthly deductions of PAYE credit slip is lodged in the bank with the amount of the tax. At the end of the year, the Organization is required to furnish the following details by the 28th of February of the next year:

- a) Taxation deduction card for each employee, showing the tax deducted from his/her salary by month.
- b) P.A.Y.E supporting list showing the total tax deducted from employees for the whole year.
- c) Certificate of pay and tax issued to every employee confirming amount of PAYE that has been deducted from his/her salary.

National Social Security Fund (N.S.S.F)

Deductions are computed at 6% of the employee's basic pay, subject to a maximum contribution of Kshs 1,080 per month. The employer makes a contribution equal to the employee's contribution.

National Hospital Insurance Fund (N.H.I.F)

The standard contributions are specified in the tables provided by N.H.I.F. Contributions are only payable by persons whose incomes are as stated by N.H.I.F. authorities from time to time. The amount payable ranges between Kshs. 500 and Kshs. 1,700 per month.

Pension scheme:

The Society maintains a contributory pension scheme for the staff. Currently the Society contributes 10% and the employee 15% of the basic salary monthly. Each month the total deduction shall be remitted to the pension scheme.

Long Term Liabilities

Loan Repayments and Remittances.

The Chief accountant will be responsible for the following tasks related to loan repayments and remittances:

- Track all loan repayments, including the amount due, the due date, and the payment method.
- Ensure that all payments are made on time and in full.
- Update all borrowed funds accounts with the latest remittances.
- Reconcile the loans balance in the General Ledger Balance on a monthly basis.

The Chief accountant will use the following methods to track loan repayments and remittances:

- Loan repayment schedules from lenders and banks.

- Standing orders and direct transfers.
- The General Ledger Balance.

The accountant will be responsible for communicating with lenders and banks to ensure that all loan repayments are made on time and in full. The accountant will also be responsible for communicating with the organization's management team about the status of loan repayments and remittances.

Capital and Equity

Shares and entrance fees

Membership fees shall include entrance fees and dairy shares (share capital). Entrance fee shall form part of Society's income.

- Share capital shall present members equity in the form of issued and paid up shares.
- Registered members have equal shares paid upon registration.

Statutory Reserve Fund:

- The Statutory Reserve Fund represents the Dairy Coop's net institutional capital which is established and owned by the Society and is not distributable. An annual appropriation will be made from the Society's profit and transferred to this fund. This transfer shall be compliant with the Co-operative Societies legislation requirements and LIMURU DAIRY COOP SOCIETY By-laws.

Inventory management

- a) The store supervisor shall maintain updated inventory records.
- b) The stores supervisor shall monitor inventory levels to ensure sufficiency.
- c) Stock taking exercises shall be undertaken on
 - a. Monthly – presided by the internal auditor
 - b. Quarterly - presided by the internal auditor
 - c. Annually - presided by the External auditors.

Issue of Items from Store

- a) The requester fills in a Stores Requisition Form indicating the items required and the quantities.
- b) The requester signs the Stores Requisition Form and the store supervisor approves it.
- c) The Office Assistant, issues the item using a delivery note and indicates on the Stores Requisition Form "Quantity Issued". He then signs the Stores Requisition Form and delivery note.

- d) The requester takes the original copy of the Stores delivery note and returns a copy to the store supervisor. The store supervisor updates the stock card for the issued items.

Monthly Closing Requirements:

Policy and Administration

LIMURU DAIRY policy on monthly closing procedures is that:

- a) The accounting books are closed and balanced every month;
- b) Bank accounts are reconciled monthly;
- c) Any issues arising from above are cleared up within 14 days.

The procedures described in this section are meant to ensure that:

- a) A systematic approach is followed in effecting period end closing procedures to ensure accuracy and completeness.
- b) Proper period end cutoff of transactions is effected and adjustments are made for all completed transactions so as to incorporate them in the financial statements.
- c) That appropriate documentary evidence is created to support all period end adjustments to enable verification of such accounts.

Review and update

This document is a living document, and it will be reviewed and updated on an annual basis to ensure that it reflects the Society's changing needs.