

**Year
2009**

Accounting and Financial Management Manual

**NETWORK FOR
ENTERPRISE
ENHANCEMENT AND
DEVELOPMENT
SUPPORT**



This document covers various aspects of accounting and finance management such as statutory, budgeting, accounting, management and controls and preparing for audit.

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PREFACE

One of the parameter for assessment of an organization's performance and credit worthiness, specifically in case of social sector, is its financial management and internal control systems. Therefore, this manual has been documented as a step towards increasing the efficiency of NEEDS's finance department's staff members, to have inbuilt mechanisms such that each staff member at NEEDS contribute towards achieving effective internal control over various resources (inputs) including man, material and money and to be a catalyst in ensuring implementation of the same even at the grassroot level.

This manual has been developed after an intensive exercise in participatory mode wherein the board members and staff members' inputs have been incorporated.

I, Murari M. Choudhury take this pleasure to thank each and everyone who has contributed their precious time, input and support for completing documentation of this manual and thereby adding a feather to NEEDS's organizational profile.

My special thanks to Ms. Rozmeen Surani who has not only helped to complete the documentation of this manual but also supported in overall improvement of accounting, financial management systems including budgeting and monitoring and internal control systems at NEEDS. On the whole, this has helped NEEDS to excel in the financial management systems.

Every organization aspires to expand and excel in terms of its activities, reach-out, geographical locations and financial management systems. Further, one has to always keep looking ahead. This raises a challenge for NEEDS to keep upgrading itself to be at par with the best organizations in social sector. This calls for reviewing and updating this manual periodically. NEEDS looks forward to its board members and staff members for their continuous inputs and efforts in this regard.

Although an effort has been made to ensure that this document does not have any significant errors, in case any error is identified kindly bring it to the notice of the finance department so that the same can be rectified. Further, suggestions are invited for inclusion of any other area felt important and relevant.

Kindly ensure that no part of this document is copied and reproduced at any other place or point in time. This document is property of NEEDS and copying from this document will be taken seriously.

Murari M. Choudhury
Executive director

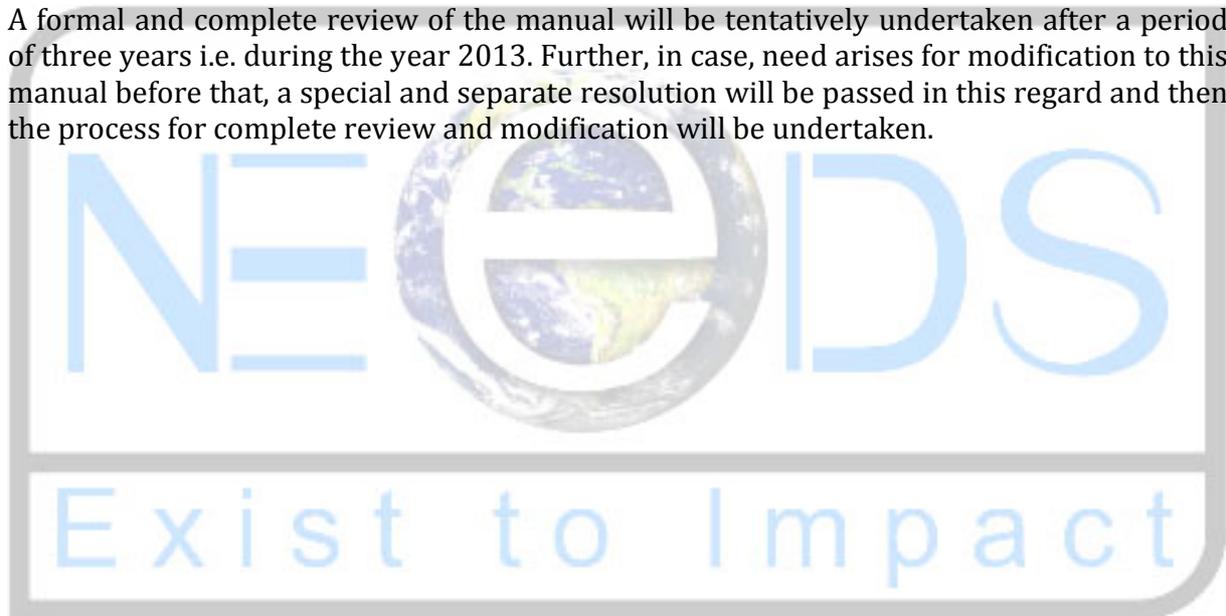
APPROVAL BY BOARD MEMBERS

This manual stands accepted from 1st December 2009. The Board expects each and every staff member of NEEDS to follow this manual religiously, in principle and practice. Further, induction on this manual should be provided to the newly recruited staff members irrespective of their thematic area or designation.

Non-compliance to this manual to whatever extent by any staff member of NEEDS will be taken seriously.

To meet the changing requirement of time, this manual will be reviewed periodically. Therefore, an addendum to this manual will be documented based on requirement.

A formal and complete review of the manual will be tentatively undertaken after a period of three years i.e. during the year 2013. Further, in case, need arises for modification to this manual before that, a special and separate resolution will be passed in this regard and then the process for complete review and modification will be undertaken.



SECTION 1 INTRODUCTION

1.1 BACKGROUND OF NEEDS

Network for Enterprise Enhancement & Development Support (hereinafter referred to as NEEDS) is a professionally managed committed NGO active in community capacity building and issue based networking. The primary focus of NEEDS is on the problems of poor in their struggle to obtain a life of justice and dignity. Environment stabilization, food security and empowerment of community for self-governance are the most important components of its mission. Gender justice, natural resource management and livelihood security are the primary areas of concern.

MISSION

NEEDS has defined its mission as follows:

“Sustained food and nutrition security of marginalized through environmentally sound interventions, while focusing on equity, justice and human rights”.

All initiatives of NEEDS focus on ensuring equal opportunities for resource poor households through improved access to human development opportunities. As a strategy, NEEDS concentrates on building local capacity, ensuring information and technology availability and enhancing linkages to development of infrastructure like credit institutions, market, health and education service providers etc.

FOCUSED PROGRAMMATIC AREAS

The mission and sectoral goals of NEEDS are designed into various programmatic interventions, broadly defined as follows:

- a) Integrated health and nutrition management
- b) Adolescent reproductive sexual health
- c) Sustainable agriculture and natural resources management
- d) Women SHG and micro credit and enterprise enhancement
- e) Livelihood enhancement, restoration and management, non-farm technology promotion
- f) Farm based technology promotion
- g) Information technology
- h) Networking, partnership and cooperation
- i) Local institution building and policy advocacy

GEOGRAPHICAL COVERAGE

NEEDS is currently working in selected pockets of santhal pargana region of Jharkhand, Chandan block of Bihar and purulia district of West Bengal. Geographical coverage of NEEDS programs and activities is wide spread across 10 districts in the states of Jharkhand, Bihar and West Bengal.

GOVERNING BODY AND MEMBERS' PROFILE

Governing body of NEEDS consists of 11 active, highly experienced and qualified rural development professional members with a gender balance of 6 male and 5 female members. One of the governing body members is entrusted with fulltime active execution of varied roles in the organization. The governing body members are enriched with 10-45 years of experience in the development field with national and international exposure. The geographic experience and exposure of these members has been restricted to Eastern India in different programmatic sectors such as:

- Food security;
- NRM/watershed management;
- Monitoring, evaluation and MIS development;
- Gender equity;
- Community health and child survival;
- Legal Aid services;
- Large NGO Programme management;
- Financial management;
- Networking and capacity building.

STAFF STRUCTURE AND PROFILE

NEEDS staff structure include technical staff members at managerial positions from various technical backgrounds i.e. Agriculture, Civil Engineering, NRM, Forestry, Rural Development, besides subject matter specialists on SHG, Micro Finance, Nutrition and Community Health Management, Monitoring and Evaluation, Gender Equity and Justice issues and Social Scientists.

In the second line NEEDS has field executives at cluster level. In front line, for the projects initiated for direct implementation at the field level, NEEDS has paid field workers active in the field; beside, numerous health volunteers are working with NEEDS at the field level.

The long-term aspiration of the Organization is to have a diversity mix as stated in the table below:

Location	Women	Disabled people	People living with HIV/AIDS
Office	Not less than 50%	3 including at least 1 in a program role (PM, PO)	An Organization that is sensitized and fully informed to be able to work productively with people living with HIV/AIDS
Field	Greater than 50%	An equal percentage to that of disabled people in the community	

Each sector has a setoral leader i.e., Health, Livelihood, Child Protection, Disability and Food Security. These sectoral leaders report to Executive Director who is also the Secretary of the Organization.

The Executive Director is responsible for the facilitation of organizational growth as a team leader and participates in project and HRD planning, monitoring/MIS development and represent organization. He is instrumental in policy advocacy and liaison; agency policy and strategy change management and head the project quality development cell.

FINANCE PARTNER ORGANIZATIONS

NEEDS as an Organization is able progress in defined sectors on account of constant financial and programmatic support from various partners in social sector both at national and international level. Some of these include:

- Science & Technology / Govt. of Indian (S&T / GoI)
- Ministry of Agriculture, Govt. of Jharkhand
- Ministry of Health & Family Welfare, Govt. of Jharkhand
- Ministry of Tribal Welfare, Govt. of Jharkhand
- Indian Space Research Organization, Bangalore (ISRO)
- MISEREOR, Germany
- SIMAVI, Netherlands
- Stichting Kinderpostzegels Nederland, Netherlands (SKN)
- International Council on Management of Population Programmes (ICOMP)
- Sir Ratan Tata Trust (SRTT)
- Sir Dorabji Tata Trust (SDTT)
- Small Industrial Development Bank of India (SIDBI)
- National Bank for Agriculture and Rural development (NABARD)
- Industrial Credit & investment corporation of India (ICICI)

1.2 STRUCTURE OF THE MANUAL

This manual has been designed as a ready reference for all the staff members at NEEDS irrespective of the department. That is to say, even non-finance staff members should easily be able to identify the relevant sections for information and get updated. Detailed training sessions were also organized for all the staff members for dissemination of this manual. Similar induction will be provided to the new coming staff members for content and usage of this manual. Relevant sections of this manual can also be photocopied and provided to concerned staff members for quick reference.

This manual is designed taking cognizance of the fact that accounting is not just recording of receipts and payments. It involves various other components without which the accounting function cannot be completed. Therefore, an effort has been made to incorporate all the functions relevant to accounting, financial management and internal control procedures. **This manual excludes the policies and procedures pertaining to human resources management which though relevant but requires a complete detailed separate manual.**

The manual has been divided into following various sections for ease of reference:

1) Introduction:

This section talks about background of NEEDS with an introduction Organization and its finance department.

2) Statutory framework:

This section provides the information on various statutes that are applicable to NEEDS at the time of documentation of this manual. It also provides a check list of compliances required under each of these statutes as a ready reference.

3) Budgeting framework:

In general, NGOs operate on grants from various funding agencies and hence budgeting becomes a key function. Under this section various requirements related to budgeting and the cycle for budgeting has been documented.

4) Accounting Framework:

Upon receipt of funds from various funding agencies, the organization requires to maintain relevant accounts and records pertaining to these funds. Therefore, following the principles of funds based accounting detailed information and structure of accounting has been documented as part of this section.

5) Management and control framework:

Wherever money is involved, management and control becomes quite relevant. Therefore, keeping in view the size and geographical spread of area of working, various management and control related procedures have been documented as part of this section.

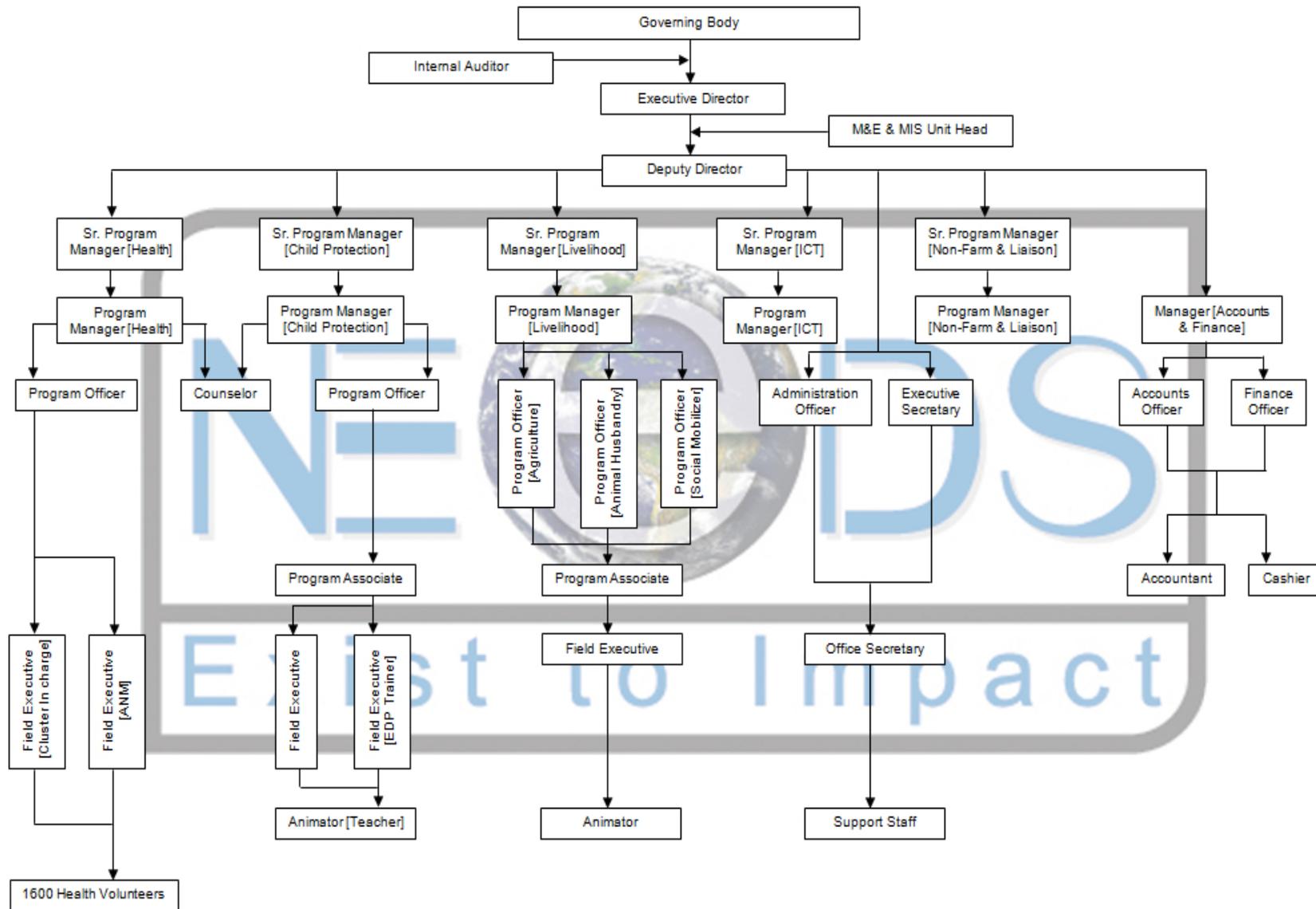
6) Audit framework:

Accounting is always followed by an audit. NEEDS being a NGO, in addition to the statutory audit, it is confronted with auditors even from funding agencies too. Hence, it is imperative for NEEDS to prepare itself for such audits in advance. In this section, an attempt has been made to document the basic requirements for preparing for any audit.

As mentioned in the preface too, no document can stand the test of time. Therefore, based on progress and changes in the operation of the organization, this manual requires constant review and modification which will be undertaken periodically by NEEDS.



1.3 ORGANIZATIONAL STRUCTURE



SECTION 2: STATUTORY FRAMEWORK

NEEDS has been registered under various statutes as required in India. Following table provides the information with regard to the Statutes under which NEEDS has been registered.

Statute	Section number	Registration number	Date of registration
Indian Trust Act, 1882		SL # 3017 D#IV-175	7 th November 1998
Income Tax Act	12 A	CIT/DHN/TECH/12A-17	
Foreign Contribution (Regulation) Act, 1976	6(1)	337680017	23 rd December 2002

In addition to above, other following statutory registrations / certifications have also being obtained by NEEDS:

- a) Permanent Account Number (PAN) under the Income Tax Act, 1961
- b) Tax Deduction Number (TAN) under the Income Tax Act, 1961
- c) Applied for renewal of Certification of exemption under section 80G of the Income Tax Act, 1961
- d) Obtained certificate of accreditation from Credibility Alliance for adhering to the desirable norms prescribed for good governance of Voluntary Organizations vide registration number CA/10/2007-08 dated 14th December 2007 which is valid up to 13th December 2010.

Following paragraphs provides applicability of the provisions under these statutes and basic guidelines on compliance under each of these statutes.

2.1 INCOME TAX ACT, 1961

The privilege of being registered under section 12 A of the Income Tax, 1961 is that the funds received by NGOs and the incidental income earned up to Rs.10 lakhs is completely exempted. However, in order to continue availing this exemption, there are a lot of compliances to be made by NGOs. These requirements have been divided into following sub-sections for ease of reference:

- a) Utilization of funds
- b) Accumulation of funds
- c) Investment of funds
- d) Flowchart for accumulation and investment of funds
- e) Accounts, audit and filing of returns
- f) Deduction of tax

2.1.1 UTILIZATION OF FUNDS

Section 11(1) of the Income Tax Act prescribes the following conditions for availing the exemption:

- a) The property should be held under trust wholly for charitable or religious purpose;
- b) Income from such property should be applied to charitable or religious purposes (Exemption is available to the extent of such application);
- c) Income should be applied in India;
- d) At least 85% of the income derived from property held under trust, should be applied to charitable or religious purposes in the relevant previous year in order to claim full exemption.

2.1.2 ACCUMULATION OF FUNDS

According to explanation 2 to section 11(1), if in the previous year, a charitable organization is not able to utilize 85% of its income, due to the fact that such income has not been received in the previous year or for any other reason, then the organization has an option to apply such income in the year of the receipt or in the year, immediately following the year of accrual of income. Following is the procedure in this regard:

- a) The NGO has to give a notice to the assessing officer in Form No.10, along with a certified copy of resolution passed by the governing body. This resolution should specify the purpose and the period for which the income is so accumulated. **The period of accumulation cannot exceed five years under any circumstances.**
- b) The NGO has to enclose copies of annual accounts along with the details of investments of the money so accumulated before the expiry of six months from the end of each relevant previous year.
- c) The amount so accumulated should be invested in any one or more forms specified in section 11(5) within six months from the end of the each of the previous year.

It may be noted that under the existing provisions, two kinds of accumulation are possible:

1) Accumulation upto 15% of income under section 11(1):

Such accumulations are not subject to application within a maximum permissible period of 5 years. In other words, 15% of income can be retained by a Charitable Organization without applying it for charitable purposes in the year in which the income was accrued. This 15% accumulation is an indefinite accumulation and the organization does not have to apply it for charitable purposes in subsequent years. It can be retained as a part of its corpus of capital.

2) Accumulation beyond 15% of income under section 11(2):

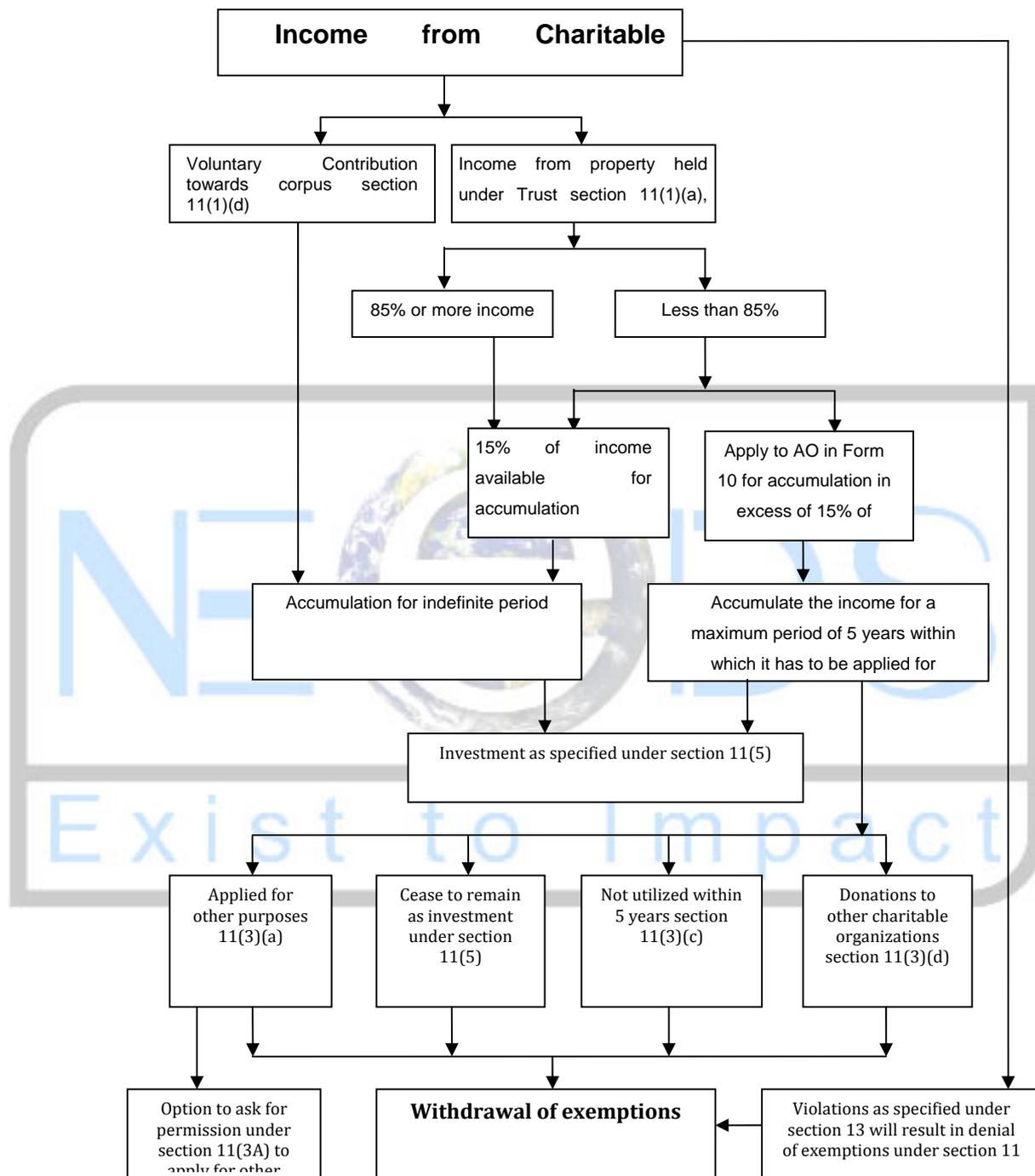
Such accumulations are subject to application within a maximum permissible period of 5 years. In other words income in excess of 15% cannot be retained by a Charitable or Religious Organizations. If the income is not spent in the current year then the assessee is permitted to spend it within the next 5 years.

2.1.3 INVESTMENT OF FUNDS

The forms and modes of investing or depositing the money for accumulated income as per Income Tax Act are as follows:

- i. Investment in Government Savings Certificates and any other securities or certificates issued by the Central Govt. under the Small Savings Scheme;
- ii. Deposit in any account with the Post Office Savings Bank Account;
- iii. Deposits in any account with any scheduled bank or a co-operative society engaged in carrying on the banking business (including a co-operative land mortgage bank or a co-operative land development bank);
- iv. Investment in units of the Unit Trust of India;
- v. Investment in any security for money created and issued by the Central Govt. or a State Govt.;
- vi. Investment in debentures of any company or corporation, the principal whereof and the interest whereon are guaranteed by the Central or State Government;
- vii. Investment or deposit in any public sector company;
- viii. Deposit with or investment in any bonds issued by a Central Government approved financial corporation engaged in providing long-term finance for industrial development in India;
- ix. Deposits with or investments in any bonds issued by any Central Government approved public Company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses
ixa) w.e.f. 01.04.2001, deposits in bonds issued by a public company engaged in long term finance for development of urban infrastructure.
- x. Investment in immovable property;
- xi. Deposits with the Industrial Development Bank of India (IDBI);
- xii. Any other form or mode of investment or deposit as may be prescribed. Rule 17C of the Income Tax Rules, 1962 have so far prescribed the following :
 - a) Investment in the units issued under the Scheme of the Mutual Fund referred to in clause (23D) of Section 10 of the Income Tax Act, 1961 ;
 - b) Any transfer of deposits to the Public Account of India;
 - c) Deposits made with an authority constituted in India for the purposes of housing accommodation, planning & development of cities, towns and villages.
 - d) Investment by way of acquiring equity shares of a depository as defined in clause (e) of sub-section (1) of Section 2 of the Depositories Act, 1996.

2.1.4 FLOWCHART FOR ACCUMULATION AND INVESTMENT OF FUNDS



2.1.5 ACCOUNTS, AUDIT AND FILING OF RETURNS

Accounts and audit:

The Income Tax Act requires the accounts of the NGO to be audited. In cases where the total income of the NGO before giving effect to Section 11 and Section 12 is audited, the auditor issues a report as prescribed under Rule 17B. The audit report shall be in Form 10B.

Income Tax Filing:

The NGO shall file its Income Tax return in Form 3A and shall be in accordance with Section 139(4). It shall be filed on or before the due dates mentioned under Section 139(1) which is presently 31st October.

Documents to accompany return of income:

- a) Balance Sheet
- b) Income and Expenditure Account
- c) Audit report in Form 10B
- d) Copy of the registration certificate
- e) Form 10 in where the NGO seeks to accumulate the income (under Section 11(2))

2.1.6 DEDUCTION OF TAX

TDS on receipts:

Where the NGO avails tax exemption under Section 11 or under Section 12 on its income, it shall obtain a certificate of non-deduction of tax from the assessing officer in form 15AA. The terms and conditions to be adhered to for seeking the certificate of non-deduction of tax are set out in Rule 28AB.

TDS on payments:

Following are some payments related to NEEDS where tax is to be deducted at source with the monetary ceiling and rates:

NEW TDS RATES FROM 01.10.2009 PROPOSED IN BUDGET 2009 PRESENTED ON 06/07/2009				
Particulars			NEW TDS RATES% IF DEDUCTEE IS	
Section	Nature of Payment	CUT OFF AMOUNT	INDIVIDUAL and HUF	OTHER
194A	Interest from a Banking Company	Rs. 10,000/- p.a	10.00	20.00
194A	Interest other than from a Banking Co.	Rs. 5,000/- p.a	10.00	20.00
194C	Payment to sub-contractor/Advertisement contracts	Rs.20,000/- per contract or Rs. 50,000/- p.a	1.00	2.00
194C	other Contractors	Rs.20,000/- per contract or Rs. 50,000/- p.a	1.00	2.00
194C	transport contractors engaged in the business of plying, hiring or leasing goods carriages.		Nil *	
194H	Commission or Brokerage	Rs. 2,500/- p.a	10.00	
194I	Rent other than Plant, Mach.& Eqp.	Rs. 1,20,000/- p.a	10.00	
194I	Rent of Plant , Machinery & Equipments	Rs. 1,20,000/- p.a	2.00	
194J	Professional Charges	Rs.20,000/-p.a	10.00	
* The nil rate will be applicable if the transporter quotes his PAN. If PAN is not quoted the rate will be 1% for an individual/ HUF transporter and 2% for other transporters upto 31.3.2010				
** The rate of TDS will be 20 per cent in all cases, if PAN is not quoted by the deductee w.e.f. 1.04.2010				
***No surcharge and cess on tax deducted on non-salary payments made to resident taxpayers.				

Other formalities:

a) Deposit of TDS:

Deposit within due date which is within one week from the end of the last month in which deduction has been made. However, where the amount is credited on the last day of the year, the tax amount can be deposited within 2 months from the date, except in case of TDS on salary.

b) Issuing TDS certificate:

Under section 203 the organization deducting TDS is required to issue a certificate to the person from whose income, tax has been deducted. This certificate will enable the

person to claim credit for such tax deducted in his/her return of income. Organizations can prepare the certificate in their own stationery but in the prescribed form. The prescribed form is Form No.16 for deduction of tax from salary, for all other cases it is Form No. 16A. Form 12BA is a statement showing particulars of perquisites, other fringe benefits or amenities and profits in lieu of salary with value thereof.

c) Filing of returns:

All organizations responsible for deduction of tax at source are required to submit to the prescribed income tax authority, a return(s) within a stipulated period after the end of the financial year. The relevant return form and the month by which it should be filed are as under:

Types of Return	Form No.	Last date for Submission
Quarterly return for tax deduction from salaries	24Q	15th July, 15th October, 15th January and 15th June
Quarterly return of deduction of tax from payments other than salaries	26Q	15th July, 15th October, 15th January and 15th June

2.2 FOREIGN CONTRIBUTION (REGULATION) ACT, 1976

As mentioned in the introduction to this section, NEEDS is registered under Foreign Contribution (regulation) Act. The guidelines on compliance under FC(R)A has been divided into following sub-sections for ease of reference:

- a) Pertinent definitions
- b) Bank account and investment
- c) Loan from domestic sources
- d) Consultancy / incidental business income
- e) Revolving fund
- f) Transfer to general fund
- g) Books of account
- h) Audit and filing of returns

2.2.1 PERTINENT DEFINITIONS

a) Foreign contribution:

The statutory definition-Section 2(1)(c) of FCRA defines 'Foreign Contribution' as follows:

“ 'foreign contribution' means the donation, delivery or transfer made by any foreign source:

- i. of any article, not being on article given to a person as a gift for his personal use, if the market value in India, of such article, on the date of such gift, does not exceed one thousand rupees;
- ii. of any currency, whether Indian or foreign;
- iii. of any foreign security as defined in clause (i) of section 2 of the Foreign Exchange Regulation Act, 1973 (46 of 1973)

Explanation - A donation, delivery or transfer of any article, currency or foreign security referred to in this clause by any person who has received it from any foreign source, either directly or through one or more persons, shall also be deemed to be foreign contribution within the meaning of this clause;”

Being a specific definition, no item other than those mentioned in the definition can be brought under 'foreign contribution'.

The mode of receipt has been kept extensively wide so as to cover donation, delivery or transfer made by any foreign source. In this regard it is important to understand the implication of the explanation to this section which was inserted vide FCR (Amendment) Act 1985. The effect of this explanation has brought the subsequent receivers of foreign funds within the scope of foreign contribution. Thus, organizations

have been debarred from making contribution to organization not registered under the FCRA.

b) Foreign Source:

As statutory definition - As per Section 2(1)(e) of FCRA, 'foreign source' is defined as follows:

"Foreign source" includes-

- i. the government of any foreign country or territory and any agency of such Government;
- ii. any international agency, not being the United Nations or any of its specialised agencies, the World Bank, International Monetary Fund or such other agency as the Central Government may, by notification in the Official Gazette, specify in this behalf;
- iii. a foreign company within the meaning of Section 591 of the Companies Act, 1956 (1 of 1956), and also includes:
 - (a) a company which is a subsidiary of a foreign company, and
 - (b) a multi-national corporation within the meaning of this Act;
- iv. a corporation, not being a foreign company, incorporated in a foreign country or territory;
- v. a multi-national corporation within the meaning of this Act;
- vi. a company within the meaning of the Companies Act, 1956 (1 of 1956), if more than one-half of the nominal value of its share capital is held, either singly or in the aggregate, by one or more of the following, namely:
 - (a) government of a foreign country or territory,
 - (b) citizens of a foreign country or territory,
 - (c) corporations incorporated in a foreign country or territory,
 - (d) trusts, societies or other associations of individuals (whether incorporated or not), formed or registered in a foreign country or territory;
- vii. a trade union in any foreign country or territory, whether or not registered in such foreign country or territory;
- viii. a foreign trust by whatever name called, or a foreign foundation which is either in the nature of trust or is mainly financed by a foreign country or territory;
- ix. a society, club or other association of individuals formed or registered outside India;
- x. a citizen of a foreign country,

But does not include any foreign institution which has been permitted by the Central Government, by notification in the Official Gazette, to carry on its activities in India.

c) Eligible and ineligible receipts:

Foreign contribution cannot be accepted by a candidate for election; correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper; judge, government servant or employee of any corporation; member of any legislature; political party or office bearer thereof.

The organization which can receive Foreign Contribution should have a definite cultural, economic, educational, religious or social programme. Further it has to obtain the prior permission of the Central Government or get itself, registered with the Central Government, to receive foreign contribution.

2.2.2 BANK ACCOUNT AND INVESTMENT

Following guidelines has been prescribed for maintenance of bank account and investment of funds:

- i. An organization can change bank account, if the reasons are relevant and justifiable. But, it has to obtain prior permission for such change from the Central Government.
- ii. Minor changes in bank account such as change in signatory may not be reported to FCRA authority.
- iii. Change in bank accounts due to computerization should be reported but no prior approval is required.
- iv. Separate bank accounts for receiving funds from different donors should not be maintained.
- v. There should be only one FCRA designated bank account in which all the foreign contribution should be received and utilized.
- vi. Interest earned from foreign funds and investments should also be considered as foreign contribution, though there is no specific provision under FCRA in this regard.
- vii. FCRA funds can be invested in fixed deposits and other investments. But, care should be taken regarding compliance under section 11(5) of the Income Tax Act.
- viii. FCRA funds cannot be transferred to another organization not possessing FCRA registration. In other words, the second or subsequent recipient is also required to have FCRA registration.
- ix. If an asset is created from domestic as well as foreign funds then only the foreign component should be reflected in FC books of account.
- x. Sale proceeds from FC asset should be deposited in the designated bank account.

2.2.3 LOAN FROM DOMESTIC SOURCES

Following guidelines have been prescribed with regard to loan from domestic sources:

- i. An organization may use funds from domestic sources for FC projects.
- ii. A loan from domestic sources is not a receipt from foreign source. Therefore, it should not be received in the designated bank account. The expenditure can be directly made from the domestic bank account and booked as expenditure in the FC books of account. A corresponding liability should also be shown in the FC books of account.
- iii. When the funds are received from foreign sources the liability can be repaid to the domestic books of account.
- iv. Any loan from domestic sources is apparently not a foreign contribution. Therefore, it should not be reflected in Form FC-3 and FC receipt and payment account.

2.2.4 CONSULTANCY / INCIDENTAL BUSINESS INCOME

Following guidelines have been prescribed with regard to the consultancy / incidental business income:

- i. Consultancy fees of business income received from foreign sources should also be treated as foreign contribution for the purpose of FCRA.
- ii. Course fee/consultancy charges received from foreigner in Indian rupees is a part of foreign contribution.
- iii. Course fee/consultancy charges received from NRI in foreign currency is not a part of foreign contribution, if the NRI is a valid Indian citizen.

2.2.5 REVOLVING FUND

As already discussed, the second or subsequent recipient is also required to possess FCRA registration or prior permission. Therefore on strict interpretation of FCRA laws, it is not possible to give revolving funds as loans to community based organizations not possessing FCRA registration. The intent of statute does not seem to be in favour of preventing deserving village based organizations from availing funds meant for them.

The amendment made in FC-3 vide GSR 557 (E) dated 36th July, 2001 has specifically included Micro Finance Projects and SHG as purpose of utilization of foreign funds. In the light of the amended FC-3, funds disbursed for revolving funds and micro finance activities should be shown as utilization in FC-3 and also as expenditure in the Income and Expenditure Account. When loans are recovered the money should be re-deposited in the FCRA bank account and should be considered as foreign contribution received and when the loans are given out again the same should be considered as utilization and expenditure in the year of the disbursement. For control purposes, separate records of the disbursements or receipt of the revolving funds should be made.

For large organization having project in various parts of India it may be difficult to redeposit in the designated bank account. But under the prevailing provisions of FCRA, it is advisable to receipt all such recoveries in the designated bank account only.

2.2.6 TRANSFER TO GENERAL FUND

It has been seen that, many NGOs transfer the surplus of income over expenditure to the general fund in the domestic books of account. A general fund being an unrestricted fund at the discretion of the organization is at times confused to be a domestic fund. But, all funds created from foreign contribution should be reflected in FC books of account only. As a result, an organization can have two general funds, one, created from foreign funds and other from domestic funds. The same is true for the corpus and other funds also.

2.2.7 BOOKS OF ACCOUNT

Following guidelines has been prescribed with regard to books of account:

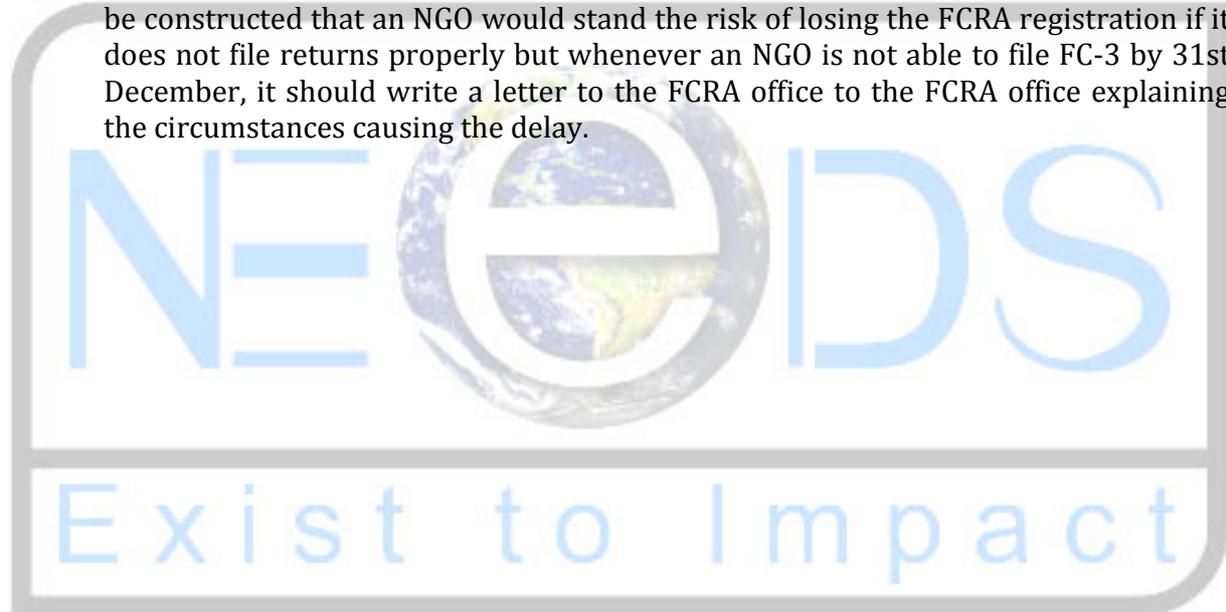
- i. All associations, which have received foreign contributions are required to maintain separate books of accounts.
- ii. FCRA specifies that the books of account should be maintained on the principles of double-entry book keeping on yearly basis from 1st April to 31st March of the year.
- iii. Every year Balance Sheet and Receipts and Payments accounts are required to be prepared and certified by a Chartered Accountant.
- iv. Record of contribution received in kind is required to be maintained as per Proforma provided in FC-6.
- v. Where organization has received foreign securities, Form FC-7 is required to be followed to maintain the records of such securities.
- vi. It may be noted that separate books of accounts specifically for foreign contribution are required to be maintained.
- vii. Under no circumstances, domestic contributions should be mixed up with foreign contributions.
- viii. In case of contributions received in kind, the approximate value is required to be mentioned in Form 6 and is also required to be reported in Form FC-3.
- ix. FCRA does not specifically prescribe any method of accounting. Therefore, an organization should continue to maintain its account on the method of accounting it has been following prior to FCRA registration.
- x. The FC-3 statement should be prepared on cash basis, based upon the receipt and payment account.

2.2.8 AUDIT AND FILING OF RETURNS

Following guidelines has been prescribed for audit and filing of returns:

- i. Form FC-3 is required to be filed by 31st December every year. Along with Form FC-3 certified Balance Sheet and statement of Receipts & Payment accounts exclusively pertaining to foreign contributions received and utilised during the year is required to be enclosed.
- ii. A certificate as per the proforma provided in Form FC-3 also required to be given by a Chartered Accountant.
- iii. The Central Government has the power to initiates audit under the following circumstances:
 - a) if the organization or the association or the association fails to file any returns within the time limit specified.
 - b) the returns submitted by the organization are not in accordance with the law.
 - c) if during the inspection/scrutiny of the returns submitted, the Central Government comes across any evidence or information which provides reasonable cause to believe that any provisions of the Act has been violated.

- iv. During the course of audit and inspection of books of accounts, the authorized officer also has the power to seize the accounts and records in the presence of two independent witnesses.
- v. Whenever accounts are seized, they have to be produced before the court within six months. If not the accounts and records are to be returned to the organization from which it was seized.
- vi. If an organization having FCRA Registration does not receive any foreign contribution, even then it should file nil returns. It is mandatory to file for FC-3 every year as long as the organization wants to validly retain its registration.
- vii. The FC-3 form is required to be signed by the Chief Functionary of the organization and a certificate is also required to be given by a Chartered Accountants giving a brief summary of the FCRA funds movement and the opening and closing balances of FCRA Funds.
- viii. FCRA is silent regarding the consequences for delay in filing FC-3. Therefore, it can be constructed that an NGO would stand the risk of losing the FCRA registration if it does not file returns properly but whenever an NGO is not able to file FC-3 by 31st December, it should write a letter to the FCRA office to the FCRA office explaining the circumstances causing the delay.



2.3 EMPLOYEES PROVIDENT FUND AND MISCELLANEOUS PROVISIONS ACT, 1952

2.3.1 APPLICABILITY AND EXEMPTION OF EPF AND MP ACT

Considering the operations of charitable institutions, EPF and MP act is applicable to the following (though they should be read with the relevant notification issued):

- i. Educational, scientific research and training institutions.
- ii. Establishments known as hospitals.
- iii. Societies, clubs or associations which render services to their members without charging any fee over and above the subscription fee or membership fee.
- iv. Establishments rendering expert services.
- v. Financial establishments (other than banks) engaged in the activities of borrowing, lending, advancing of money and dealing with other monetary transactions with a view to earn interest.
- vi. Establishments engaged in poultry farming.
- vii. Establishments engaged in cattle feed industry.
- viii. Agricultural farms, fruits, orchards, botanical gardens and zoological gardens.

Any establishment registered under the Co-operative Societies Act 1912 or under any other law for the time being in force in any State relating to co-operative societies, employing less than **20 persons** and working without the aid of power.

2.3.2 PERTINENT DEFINITIONS

a) Employee:

An employee – sec. 2(f), means any employee who is employed for wages in any kind of work, manual or otherwise, in or in connection with the work of an establishment, and who gets wages directly or indirectly from the employer and includes any person:

- i. employed by or through a contractor in or in connection with the work of an establishment.
- ii. engaged as an apprentice, not being an apprentice engaged under the Apprentices Act 1961, or under the standing orders of the establishment.

An apprentice means a person who according to the certified standing orders applicable to a factory or establishment is an apprentice or who is declared to be an apprentice by the authority specified by the appropriate government. Accordingly, personal or domestic servants are not employees under the Act.

b) Excluded employees:

“Excluded Employee” has been defined in para 2(f) to mean an employee:

- i. who having been a member of the fund, withdrew the full amount of his accumulations on retirement or emigration or
- ii. whose pay at the time he is otherwise entitled to become a member of the fund exceeds Rs. 6,500.00 p.m.

2.3.3 EMPLOYEES REQUIRED TO JOIN

The following employees are required to join the fund (Para 26 of EPF Scheme):

- i. Every employee employed in or in connection with the work of the factory or other establishment to which the EPF Scheme applies except an excluded employee i.e. drawing a salary exceeding Rs. 6,500.00 p.m. {Para 26(1)}.
- ii. Every employee is required to join the fund from the date of joining the factory or establishment {Para 26(2)}.
- iii. Every excluded employee on his ceasing to be excluded employee i.e. makes an application jointly with the employer.

2.3.4 CONTRIBUTION

The contribution envisaged under sec 6 read with notification dated 9th April 1997 and para 29 of the EPF Scheme, specifies that the rate of contribution under the E.P.F. Act as 12%. The employer has to deposit 12% of the basic wages, dearness allowance and retaining allowance (if any), on his part and an equivalent amount on behalf of the employee, which is to be recovered from the employee's salary (para 32 of EPF Scheme).

- For this section 'dearness allowance' shall be deemed to include the cash value of any food concession allowed to the employee. The 'retaining allowance' means an allowance payable for the time being to an employee for retaining his services, when the establishment is not working.
- Basic Wage as per sec 2(b) means emoluments which are earned by an employee while on duty or on leave or on holidays with wages. It includes cash value of food concession, dearness allowance and any presents made by the employer.
- Encashment of leave does not fall under dearness allowance or retaining allowance or basic wages and is not to be considered in computing the amount to be deposited under the EPF Act. This aspect has been upheld by the court in Hindustan Lever Employees (**Union v RPFC 1995 (71) FLR 46 (Bom)**).

Inspection Charges:

The employer has to contribute 0.18% of the basic wages, D.A., retaining allowance and cash value of food concession towards inspection charges, (para 30 (3) of the EPF Scheme). This amount cannot be recovered from the employees.

2.3.5 TIMEFRAMES

Para 38 of the EPF Scheme specifies that the contributions and administrative charges have to be deposited within 15 days of the close of the month by separate drafts / cheques on account of contributions and administrative charges. The cheque should be on a local branch and deposited with the Reserve Bank or the State Bank of India.

SECTION 3: BUDGETING FRAMEWORK

3.1 OVERVIEW

An organization, to carry on its activities, requires resources such as Man, Money and Material. In case of a charitable organization, money is raised from various sources / funding agencies. And for raising funds the basic requirement is of planning and budgeting, which is followed by monitoring and reviewing. This section attempts to provide comprehensive details with regard to complete ambit of planning, budgeting, reviewing and monitoring.

This Section throws light on some of the basic questions pertaining to the process of budgeting and monitoring such as:

- What are the advantages of preparing budget?
- How to prepare the budgets and who should prepare the budgets?
- Why should the budgets be monitored and who should monitor?
- Why should the budgets be monitored, reviewed and amended?

For preparation of good budgets it is very important that basic guidelines are laid down. In an attempt to do so the following paragraphs provides some insight on the techniques and some tips for preparation of budgets.

3.2 TECHNIQUES FOR PREPARATION OF BUDGETS

There are two well-known techniques for preparation of budgets viz. zero based budgeting and the traditional incremental budgeting.

3.2.1 ZERO-BASED BUDGETING

Zero-based budgeting is a technique of planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting, justification is provided only against the increases over the previous year budget. What has been already spent is considered to be automatically sanctioned. No reference is made to the previous level of expenditure. By contrast, in zero-based budgeting, all the activities are reviewed comprehensively and all expenditures are required to be approved, rather than only the increases. Unlike the traditional budgeting, the zero-base is indifferent to whether the total budget is increasing or decreasing.

Zero based budgeting also refers to the identification of a task or tasks and then funding resources to complete the task independent of current resourcing.

Advantages of zero-based budgeting

1. Efficient allocation of resources, as it is based on needs and benefits.

2. Drives managers to find cost effective ways to improve operations.
3. Detects inflated budgets.
4. Useful for service departments where the output is difficult to identify.
5. Increases staff motivation by providing greater initiative and responsibility in decision-making.
6. Increases communication and coordination within the organization.
7. Identifies and eliminates wasteful and obsolete operations.
8. Identifies opportunities for outsourcing.

Disadvantages of zero-based budgeting

1. Forced to justify every detail related to expenditure.
2. Necessary to train Principle Investigators (PIs). Zero-based budgeting must be clearly understood by them at various levels to be successfully implemented. Difficult to administer and communicate the budgeting because more PIs are involved in the process.
3. Information from such budgets may be so large that no one person could read it all. Compressing the information down to a usable size might remove critically important details.
4. Honesty of the people involved in budgeting must be reliable and uniform. Any individual that exaggerates skews the results.

3.2.2 INCREMENTAL BUDGETING

Incremental Budgeting uses a budget prepared using a previous period's budget or actual performance as a base, with incremental amounts added for the new budget period. The allocation of resources is based upon allocations from the previous period. This approach is not recommended as it fails to take into account changing circumstances. Moreover, it encourages "spending up to the budget" to ensure a reasonable allocation in the next period. It leads to a "spend it or lose it" mentality.

Advantages of incremental budgeting

1. The budget is stable and change is gradual.
2. PIs can operate their projects on a consistent basis.
3. The system is relatively simple to operate and easy to understand.
4. Co-ordination between budgets is easier to achieve.
5. The impact of change can be seen quickly.

Disadvantages of incremental budgeting

1. Assumes activities and methods of working will continue in the same way.
2. No incentive for developing new ideas.
3. No incentive to reduce costs.
4. Encourages spending up to the budget so that the budget is maintained next year.
5. The budget may become out-of-date and no longer relate to the level of activity or type of work being carried out.

6. The priority for resources may have changed since the budgets were originally set.
7. There may be budgetary slack built into the budget, which is never reviewed. There may be a possibility of overestimation of requirements in the past in order to obtain a budget which is easier to work within, and which will allow them to achieve favourable results.

3.3 TIPS FOR BUDGETING

The process of budgeting starts where the concept note for the project and planning has reached a certain state of clarity. Budgeting process is not a mere conversion of the activities into financial terms. In order to prepare a decent budget a lot of deliberations are required to ensure that all the possible components relevant to activity requiring funds are thought upon and included.

- 1) **Budget and proposal:**
The budget and the proposal copy must be mutually reinforcing. Proposal budgets directly reflect the depth of project planning. A poorly articulated budget may be evidence of an ill-designed project. A reader should never be surprised by finding any line item in the budget not referred to in the narrative plan of operations and vice-versa.
- 2) **Budgets should be reasonable:**
Funding agencies' staffs have years of experience in reviewing budgets. They know when a budget is inadequate for the tasks proposed, and they know a padded budget when they see one. Do not underestimate their expertise. Involvement of finance department's staff members will help in ensuring that all relevant aspects are taken care off.
- 3) **Analyzing the tasks:**
Create a budget by analyzing the tasks needed to complete each activity. One of the easiest ways to develop a budget is by identifying the individual tasks that must be performed to achieve an objective and breaking those tasks down into a series of logical steps. For instance, if a proposal calls for a workshop; it may involve the following components:
 - a) Participants' travel and accommodation;
 - b) Stationery and training material;
 - c) Training hall charges;
 - d) Food and other facilities to be provided during the course of training;
 - e) Facilitator's travel and accommodation and fees, etc.
- 4) **Be detailed as possible:**
Avoid lump sum requests; be as detailed as possible. Budget details help justify a request. For instance, a budget requesting a flat Rs.5,000 for "travel" will pale beside a travel request that identifies specific destinations and breaks down the total amount requested into airfare, local conveyance, lodging and meals.

- 5) **Allow for inflation:**
Ensure that the expenses, which gets increased over the period of time on account of inflation and other factors are projected accordingly such as salaries, fringe benefits (health insurance), utilities, rental and transportation costs which often increase each year.
- 6) **Funding agencies' guidelines:**
Follow the funding agencies' guidelines with regard to preparation of budgets including the formats to be followed. Do not hesitate to call a funding agency with specific questions about allowable and non-allowable costs.
- 7) **Matching funds / own contribution:**
Matching funds are your organization's contribution to a proposed project. An institutional match may consist of a combination of cash (direct costs), in-kind contributions, and Facilities & Administrative costs. Where an organization owns a premises they can charge for premises usage charges with the approval of funding agency and can increase its corpus. **It should be ensured that the basis for computation of own contribution is clearly defined and approved by the board members. Further the same should be communicated to funding agency by providing sufficient clarification to such budget line items.**
- 8) **Contribution in kind:**
In-kind contributions are a legitimate budget item. In-kind contributions are non-cash donations of materials, property, facilities, and/or services such as staff or volunteers' time. One way to conceptualize an in-kind item is to think of it as a contribution in which money does not change hands directly. In such cases no funds are directly deposited in the organization's bank account but their monetary value can be calculated and included as part of report.
- 9) **Administrative costs:**
Facilities and administrative costs (indirect costs) are a legitimate budget item. Funding agencies may provide funds over and above the direct costs to cover the intangible expenses associated with administering a project (infrastructure, non-project staff member's contribution, paperwork processing, etc.). These may also be used as matching funds. The funding agencies will specify what rate, if any, you should use.
- 10) **Basic budget items:**
All the budget line items generally fall under following categories of budget line items:
 - a) Capital cost,
 - b) Personnel cost,
 - c) Administrative costs,
 - d) Direct project implementation cost,
 - e) Travel cost.

3.4 PREPARATION OF BUDGETS

3.4.1 PROJECT BUDGETS

At the time of documentation of this manual, NEEDS has been largely a program-oriented organization. Therefore the process of preparation of the budget is also program / project based exercise.

The process of the preparation of budget is initiated once the concept is conceived, approved by the funding agency and broad activities to be undertaken under the project has been identified. Based on the activities identified the project and finance staff members come together and convert the activities into monetary terms.

The key feature of preparation of project budgets is that these are prepared based on the time required for implementation of the project. Therefore the project budgets are ranged from a period of 3 months to 5 years. In some instances the budgets are also required to be prepared specifically for an activity, which is funded under a larger project being carried on by other organizations.

These budgets are then converted from different periodicities to organization budget for the financial year. This becomes a guiding factor for better monitoring of budgets across the projects both by program and finance staff members.

It is to be noted that the budget towards the office administration expenses are prepared by the finance staff members to meet the deficit in the overall organizational budget and incorporated in the project budget, which will then be presented to the funding agency for approval.

Hence, the project budget preparation activity is undertaken in close coordination with the finance staff members to ensure that all the financial components required for implementation of the project are incorporated.

3.4.2 ADMINISTRATIVE EXPENSES BUDGET

For any organization to implement the project, it requires an office base and human resource (which may not be designated for project work). This in turns leads to additional cost, which is required to be shared amongst all the projects.

NEEDS being a project-oriented organization, all the administration expenses are required to be met by the project funds. Therefore, annually administration expenses budget is also prepared to assess the deficit in meeting such expenses and thereby allocating the same to any upcoming projects.

The exercise of preparation of administrative budget involves allocation of expenses to different funding agencies before commencement of the financial year. Therefore at the time of making payment / entry in the books of account, the budget becomes guiding factor for charging such expenses to different projects.

Following are the advantages of preparation of the administrative budgets:

- a) Reflects transparency in charging of such common expenses instead of charging them based on availability of funds.
- b) Facilitates in assessing total cost of administration
- c) Becomes benchmark of incurring expenses
- d) Facilitates in charging of expenses to different projects
- e) Helps in assessing the cost that can be allocated to the upcoming projects.
- f) Helps in close monitoring such common expenses.

3.4.3 BASIS FOR ALLOCATION OF ADMINISTRATIVE EXPENSES

The allocation of the admin budget to various projects could be based on any of the following methods:

- a) Month wise allocation:
For instance, rent can be defined to be charged on monthly basis within the approved budget under the project.
- b) Percentage based allocation:
For instance, salaries of admin and finance staff members can be defined to be charged to the projects on percentage basis, depending up on availability of the approved budgets.
- c) earmarking of expenses:
For instance, while electricity charges for the year are defined to be charged to one-project telephone expenses for the year are defined to be charged to another project. However, availability of the budget provision for the same should also be confirmed.
- d) Allocation in the ratio of availability of the budgets under various projects:
NEEDS can also choose to charge certain expenses to all the projects in the ratio of provision of budget towards overhead expenses. For instance, expenses towards stationery or printing cost.

Depending upon the nature of expenses, an appropriate method is adopted for allocation, which is pre-defined at the time of preparation of the budget itself. Therefore, the finance staff members have better clarity in terms of charging the expenses at the point of incurring such expenses.

Following is the timeframe for preparation of annual administration expenses budget:

Timeframes	Action	Responsibility
First week of February	Preparation of budget variance analysis up to January.	Finance Manager in coordination with Accounts Officer and Finance Officer
Last week of February	<ul style="list-style-type: none"> List down anticipated expenses for the month of February and March. Based on the current year's spending trend, prepare the budget for the next financial year and submit the same to Executive Director for his inputs and feedback. 	Finance Manager in coordination with Accounts Officer and Finance Officer
Second week of March	<ul style="list-style-type: none"> Revise the current year's budget variance analysis report incorporating February month's expenses and anticipated expenses for March. Based on the feedback received from Executive Director, revise the budget for the next financial year. Based on the availability of the funds, allocate the expenses to different projects choosing the appropriate method as mentioned above. This shall be done in coordination with the Project Managers. 	Finance Manager in coordination with Accounts Officer and Project Managers
By the end of third week of March	<p>The budget for administrative expenses and its allocation to various projects is finalized after incorporation of feedback from Executive Director and Project Managers.</p> <p>The budget and allocation is approved by the Executive Director formally by signing the budget and allocation sheets.</p> <p>The copy of the same is circulated to the Project Managers for review and monitoring of the same from their end.</p>	Finance Manager

3.5 MONITORING AND REPORTING

The exercise of preparation of the budgets is fruitful only when the budgets as prepared are being followed up and monitored. Following are the advantages of constant monitoring of the budgets:

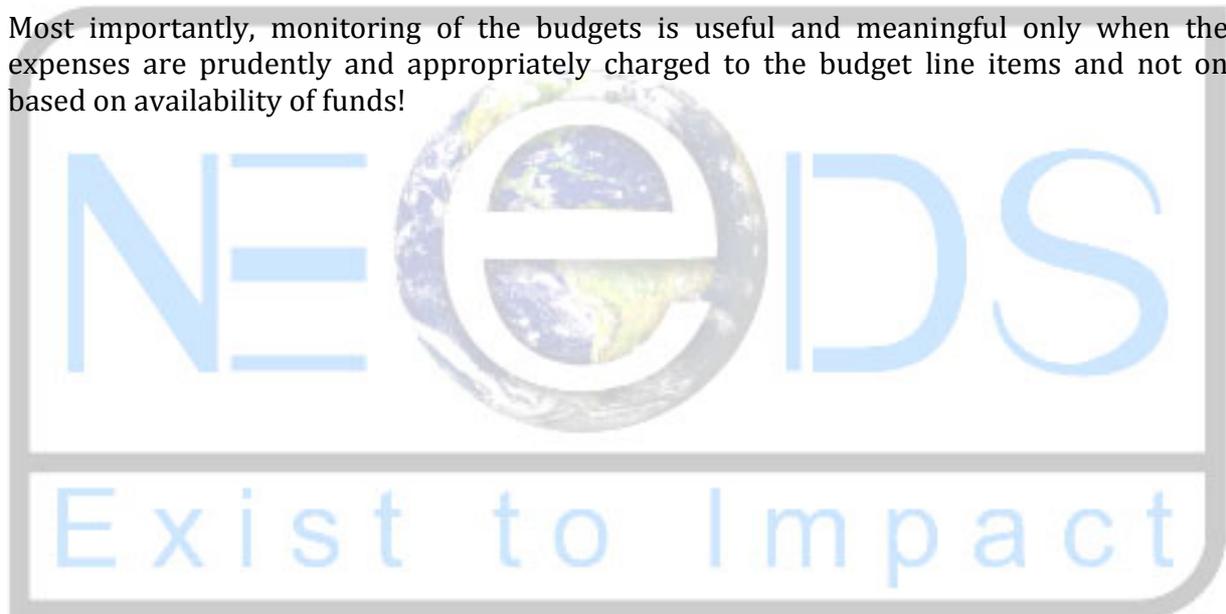
- a) It helps the staff members to stay focused on the kind of expenses allowable under the project and monetary limit for the same;
- b) In many instances, it saves the organization from asking for reallocation of the budget as a result of over / under utilization of expenses;
- c) Helps in anticipating unforeseen / unplanned expenses well in advance so that the funding agency can be approached for seeking prior permission for such expenses within the overall approved budgets;
- d) Learning from the errors and mistakes in preparation of budgets for one project helps in reducing the same while preparation of budgets for other project. One will identify and realize the errors and mistakes only when the budgets are closely monitored and not when the expenses are charged to inappropriate budget line items!!
- e) Leads to the approach of charging of expenses to appropriate line items rather than trying to somehow link the expenses to the project;
- f) The over / under utilization under a project becomes a guiding factor for preparation of the budget for other projects;

At NEEDS, the budget monitoring and internal reporting process involves:

- Monthly staff meetings wherein activities (including the anticipated expenses for the same) for the forth-coming month is proposed for implementation by the Project Managers.
- Based on this, monthly indents are prepared by concerned Project Managers which is reviewed and approved by the Executive Director.
- Based on the approved activities and budgets, weekly plan of action is prepared.
- The finance staff members released the advance for expenses only when such advance is within the budget as per the monthly indent which is duly approved by the Executive Director.
- These monthly activity based budgets are within the budgets approved by the funding agency.

- During such monthly meetings, the finance staff members also reports project wise utilizations which are referred to as MFS. They also report on the outstanding advances and liabilities.
- Based on such reporting, informed decisions and corrective actions regarding gaps in performance and under / over spending are taken. This could include revising / re-looking at the strategies for achieving the budgeted targets.
- The Project Mangers obtain prior written approval of the Executive Director and the concerned funding agencies for any deviations from the budgets, in excess of permissible limits. Such deviations / over spending are undertaken only upon receipt of approval from the funding agency.

Most importantly, monitoring of the budgets is useful and meaningful only when the expenses are prudently and appropriately charged to the budget line items and not on based on availability of funds!



SECTION 4: ACCOUNTING FRAMEWROK

4.1 ACCOUNTS DEPARATMENT AT NEEDS

4.1.1 STRUCTURE

The beauty of the accounting department is the way it is structured. That is there has to be synergy between the skills and the job description.

Therefore, keeping in view the skill set of the staff members, the accounting department has been structured in the following manner to facilitate utmost accountability and responsibility at the same time provide space and scope for further development.

Following are further details with regard to the structure of finance department as pictorized above:



4.1.2 JOB DESCRIPTION

Following are the job description for each of the positions as mentioned in the picture above:

INTERNAL AUDITOR:

- Undertake quarterly audit of all project accounts.
- Verify and audit Community / local contribution
- Undertake audit of program objective / results / impact vs. expenses made
- Financial & Physical progress review of all projects
- Review and understand the HR and FM of NEEDS in order to undertake system audit of administrative, financial and programmatic norms for compliance review and report to ED.

FINANCE MANAGER:

- Yearly Financial Planning and budgeting at organization level.
- Budget preparation for different projects / programme.
- Develop and maintain system and processes for finance and administration of the organization effectively.
- Compliance with all statutory rules and regulations (FCRA, Income Tax, RBI Rules, Companies Act, etc.)
- Coordinate with the statutory auditors for statutory compliance;
- Prepare annual salary distribution / by source payment schedule for following year and update periodically as and when revisions take place and obtain approvals of ED.
- Fund mobilization and develop ways and means to develop corpus
- Fund management and reconciliation of Fund and Budget variances.
- Ensuring timely Financial Reporting.
- Be aware and up to date with NEEDS systems and Procedures, seek authorization and approval for deviation; Ensure timely payment of salaries and related benefits in line with organizational approvals and norms and statutory requirements. Compile, consolidate and prepare relevant reports in a timely manner for approval in line with organizational requirements
- Capacity Building of staff for meeting organizational / statutory compliances.
- Development of the department
- Review internal controls and systems in line with organizational requirements.

Accounts Officer :

ACCOUNTS OFFICER (CENTRAL):

- Ensure overall management and consolidation of all accounting functions at the head office level for compliance with statutory and organizational requirements
- Ensure adequate availability of funds for programs in line with approved budgets and organizational requirements.
- Consolidate all fund requests from Field offices and forward a payment request to Finance Manager
- Disburse remittances to Field offices promptly keeping in view their project budgets;
- Follow up with the Bankers for prompt remittances
- Ensure that daily bank balances is kept at the optimum level;
- Ensure that all financial transactions are as per the approved budgets and report to the Management on the same.
- Consolidation of monthly /year end/budget
- Manage and monitor all budgets within approved limits, and suggest corrective action in case of variances;
- Preparation and issue of management reports promptly and accurately; ensure that the Accounting team is competent for all tasks assigned to them.
- Support the head office to work in the most effective and economic manner;
- Capacity building of staff for meeting organizational / statutory compliance.
- Monthly / quarterly financial/accounting reporting in the approved manner; Year end reports to the Regional Office in the approved formats; Ensure capacity building of relevant partner staff for smooth implementation of the project and proper utilization of financial resources.

Accounts Officer [Procurement]

- Ensure timely compliance of legal matters relating to FCRA, Income Tax, RBI rules, Trust Act, PF , Insurance etc.
- Ensuring timely compliance of insurance renewals of all kinds and claims if any of all forms.
- Ensure sufficient cash availability on daily basis based on the cash policy of NEEDS and close cash accounts day to day basis every day by 4:30 pm
- Prepare salary statements every month by 25th of each month for all staffs
- Process all procurements as per procurement policy of NEEDS
- Ensure maintenance and management of NEEDS asset register up dated on day to day basis and prepare depreciation statements for audit on annual basis

- Ensure TDS deductions and deposits related to salaries, procurements and others and also follow up with TDS claims
- Prepare and ready for any external or internal audit for the legal and otherwise system compliance as per NEEDS and Govt. regulations
- Read and get aware of ToR, MoU and contracts that NEEDS signs and ensure that the legal requirements of such contracts are met.

ACCOUNTS ASSOCIATE (I) :

- Verification of bills for its accuracy and with budget line heads and forwarded for entry after checking by AO.
- Verification of all bills by PM/PO for confirmation of its line heads.
- Preparation of all bills by the PM/ PO for confirmation of its line heads
- Preparation of cheques as per approved bills
- Update of Bank registers with incoming and outgoing cheques and cash deposits details
- Making cheques payments after preparation of vouchers by (AAI)
- Outdoor work relating to Banks
- Preparation of monthly financial statement
- Budget tracking while verification of bills
- Verification of bills with the monthly indent
- Tracking of advances on monthly basis
- Bills must be stamped with 'passed for payments'

ACCOUNTS ASSOCIATE (II)

- Enter all approved / passed bills for vouchers after cross checking for its accuracy to respective projects and approved line items
- In case of any discrepancies observed, refer back the voucher for further clarification without passing entry
- Once entries are passed at your end , forwarded the vouchers for final signature to authorized signatory [ED]
- Make sure that narrations in the vouchers are appropriate to project line items and must be easily verifiable with bills and line items it refers to .
- Verify all bills if they are approved as per available budget line item and within provisions (cross check for budget availability) you will get already verified bill of entry , you need to sample cross check for larger amounts that is greater than 10,000/-
- Follow up on internal audit observations for compliance at immediate effect, related to vouchers and entries.
- Complete day to day entry for up to date systems of accounting.
- Preparation of advance statement on monthly basis

- Prepare BRS for all banks, once in a month (between 1st to 5th of each month) for last month and get it verified by accounts officer and ED thereafter.
- Supporting of vouchers must be stamped by accounts officer and ED thereafter.
- Filling of all project vouchers.

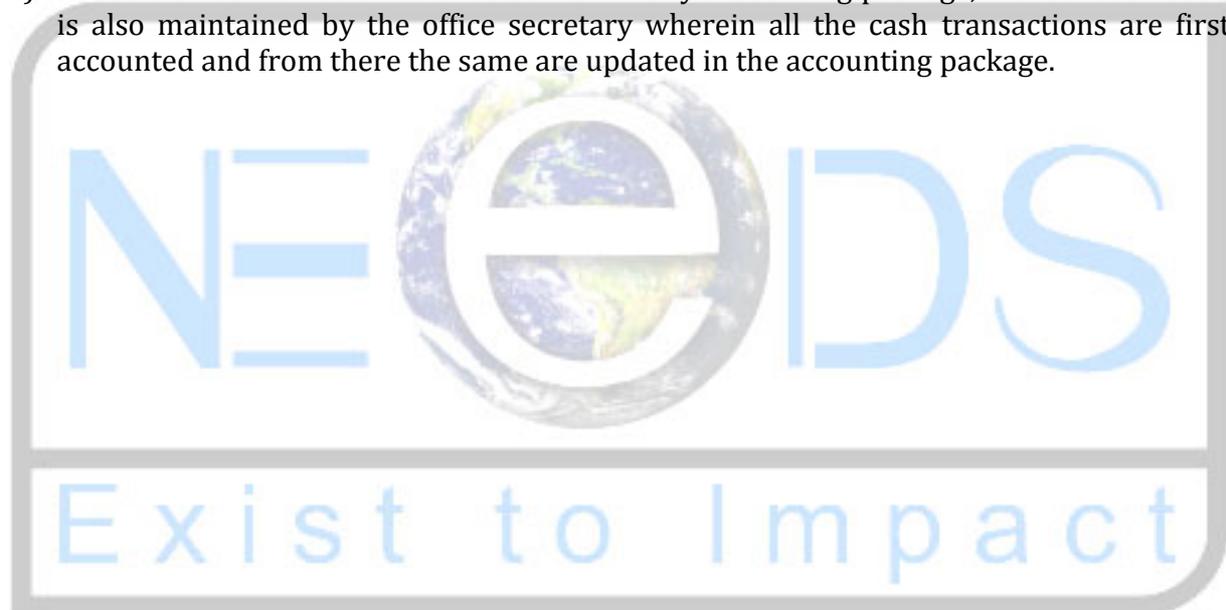


4.2 BOOKS OF ACCOUNT

At NEEDS the books of account are maintained in Tally accounting package wherein separate companies are created for Indian funds and foreign funds. Further a group company is also created for facilitating consolidation of the organizational financial statement. The group company also facilitates online real time consolidation of financial statements.

Following are the further details of the books of account maintained at NEEDS:

- a) NEEDS maintains accounts centrally at head office.
- b) At field offices expenses are incurred through advances and therefore, no financial records are maintained at the field office. However, various programmatic and subsidiary records are maintained at field offices that support the accounting of expenses. For instance, input distribution records.
- c) In addition to maintenance of accounts in Tally accounting package, manual cash book is also maintained by the office secretary wherein all the cash transactions are first accounted and from there the same are updated in the accounting package.



4.3 ACCOUNTING PROCESS

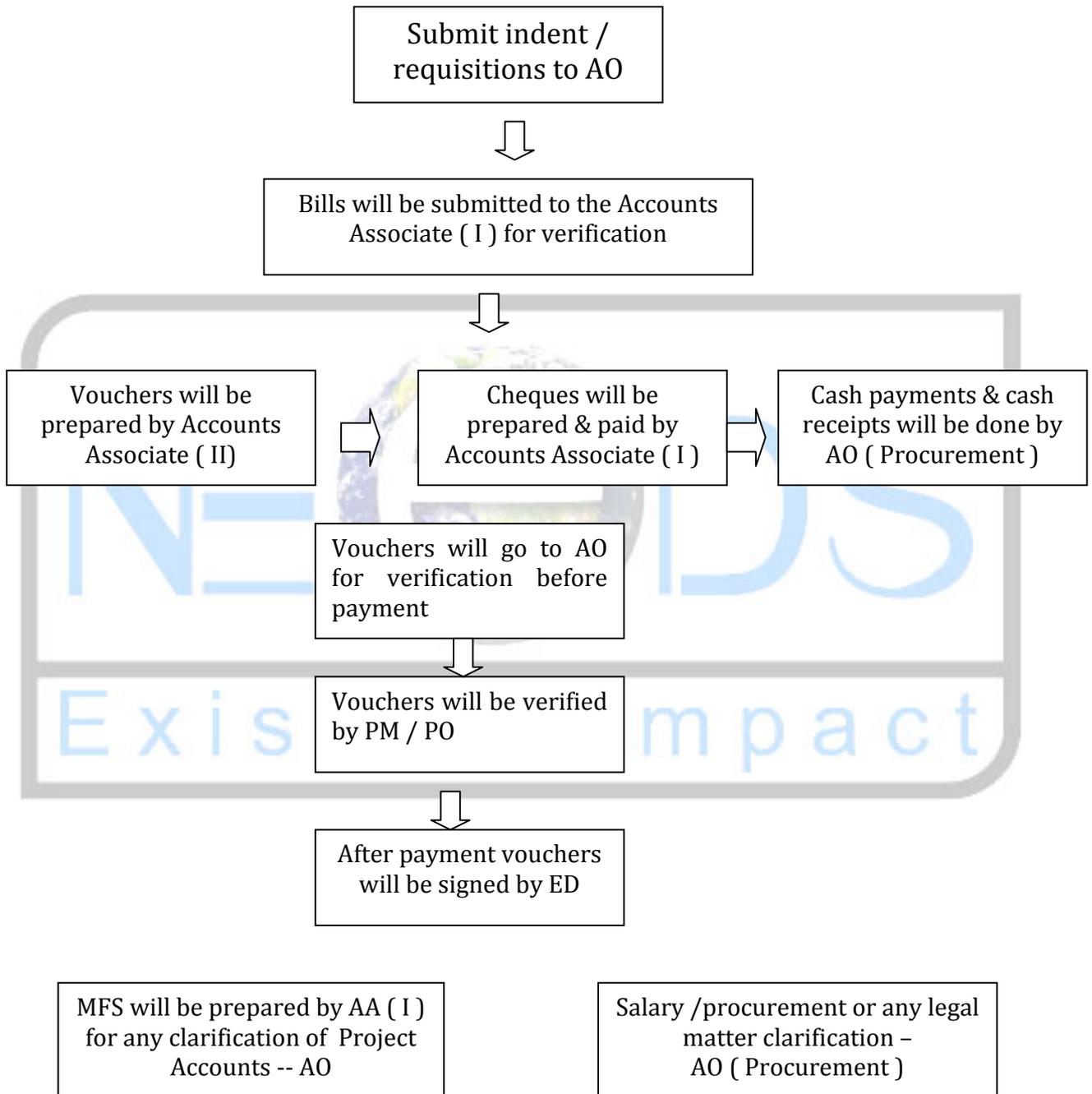


CHART OF ACCOUNTS

Chart of accounts is a list of all accounts tracked by a single accounting system, and designed to capture financial information to make good financial decisions. In case of NGOs, due to variety of projects and funding agencies, they need to link the chart of accounts with the approved budget line items. To meet this requirement, following structure is adopted at NEEDS:

- a) The natural head of accounts are treated as ledgers, which reflect the nature of expenses.
- b) Cost centers are created for each project in accordance with the approved budget line items.
- c) At the time of entering the transactions, ledgers and cost centers are debited. This facilitates reporting for organizational needs and for funding agencies.

Following is list of natural head of accounts / ledgers as created in Tally:

List Enclosed



4.4 VOUCHERS

A voucher is a basic document, which is prepared to record any financial transaction that takes place. Hence, vouchers should be prepared / printed for all the transactions that take place in the organization even if they are supported by a bill or the payment is made by cheque.

Following are the salient features of the vouchers:

- a) While bills and supporting documents validate the incurring of such expenses, voucher becomes documentary evidence of accounting.
- b) A voucher acts a back-up document for regeneration of the accounts in case the books of account are destroyed.
- c) Vouchers are serially numbered and filed chronologically for easy access, verification and audit.
- d) Vouchers are to be maintained in safe custody under finance department.
- e) Neither the supporting documents nor the voucher should be overwritten.
- f) A voucher also reflects additional information such as the account head and project under which the transaction is accounted.
- g) Affixing of signatures such as prepared by and verified by adds to the quality of accounting and authorizing process.
- h) Affixing "PAID & CANCELLED" stamp on the vouchers and supporting documents, increases control and reduces the possibility of reusing the supporting documents for processing.
- i) Each type of voucher is distinguished by its colour detailed as under:
 - Cash payment – Yellow,
 - Cheque payment – Pink,
 - Receipts – Green ,
 - Journal and Contras – White

4.5 COMPUTERIZED ACCOUNTING

Usage of technology always requires precautionary measures to be taken. Although computerized accounting is convenient, time saving and beneficial; it is very important to put in place the checks and balances for security of the accounts.

Following are the security features being activated at NEEDS:

- Passwords have been activated for users and administrator.
- User rights have also been defined such that the Accountants have only the right to make entries but they cannot alter or delete the entries from Tally.
- Making of back dated entries is restricted. At any circumstance, back dated entries cannot be made in Tally.
- With the above mentioned security features, the original entries can never be altered. In case of rectification a fresh rectification entries are made in Tally.
- Periodic back up is also taken on an external saving device.
- Vouchers are printed from Tally with the feature of auto generation of voucher number being activated.

SECTION 5: MANAGEMENT AND CONTROL FRAMEWORK

5.1 PROCESSING OF PAYMENTS

Following is the process followed for the purpose of processing of payments:

- Activity plans for each project are discussed in the monthly staff meetings which is generally conducted at the end of the month and later the same is approved by the Executive Director;
- Based on the approved activity plans, monthly indents are prepared defining the total amount of funds required for conducting those activities;
- The monthly indents are first verified and approved by the Project Manager and submitted to ED for approval by the accounts department after verification of availability of funds.
- Based on such approved monthly indents, requisitions are submitted to finance department for processing of payments.
- These requisitions included the instructions with regard to the mode of payment which could be one of the following:
 - a) Cash payments
 - b) Staff advances
 - c) Direct payment to third parties
- At the time of actual processing of payments by the finance department, the bills and supporting documents along with the requisitions are presented to designated authority / ED for final approval after thoroughly verifying them.
- Upon obtaining the final approval from ED, the payment is processed.
- “Passed for Payment” stamp is affixed before preparation of vouchers / making entry in Tally.

5.2 AUTHORIZATION AND APPROVAL

Following nature of expenses for which specific guidelines are defined for approval and authorization:

- a) Capital nature of expenses
- b) Project related revenue expenses
- c) Administrative / common / routine expenses

Any payments not falling within the above category or not as per the approved monthly indent, the approval is to be obtained from Executive Director irrespective of the quantum of amount.

Following are the guidelines for approval and authorization of payments based on the category of expenses:

Capital expenses:

The approval of capital nature of expenses is based on the procurement procedures, which have been documented in the subsequent sub-section.

Project related revenue expenses:

It has been decided that the project managers will be authorized to approve the project related payments in accordance with the approved activity plans and monthly indents up to an amount of Rs.5,000.

Administrative / common / routine expenses:

An illustrative list of expenditure falling in this category:

- a) Rent
- b) Salaries
- c) Vehicle related payments
- d) Office maintenance
- e) Stationeries and computer consumables
- f) Telephone and internet charges
- g) Postage and courier
- h) Hospitality expenses
- i) Printing
- j) Board meeting related expenses
- k) Travel
- l) Audit charges
- m) Consultancies

The administrative in-charge will be responsible for approving the payments under this category up to an amount of Rs.1,000.

The authorization and approval limits as mentioned above are summarized in a tabular form as under:

Category of expenses	To be approved by	Monetary limits
Capital nature of expenses	As per the procurement policy	As per the procurement policy
Project expenses	Project Manager	Rs.5,000
Admin / routine nature of payments	Administration in-charge	Rs.1,000
Any payment not falling within above category or not as per the approved indents	Executive Director	No limit



5.3 PROCUREMENT PROCEDURES AND POLICIES

Procurement involves the following different categories:

- a) Capital items
- b) Services
- c) Consumables

The general procedure to be followed for procurement is as follows:

- Based on the activities approved in the monthly meeting, the procurement requirements are documented in the monthly indent, which is verified by the project manager, and ED's approval is obtained.
- The process of calling quotations is initiated by the Accounts Officer (Procurement).
- Upon receipt of quotations comparative statement is prepared and presented in the procurement committee meeting. The key components to be documented for comparative statement includes details of vendors / suppliers, recommended vendor / supplier, reasons for selection of the vendor / supplier, reasons for not calling requisite number of quotations – deviating from the prescribed procedures;
- Approval is accorded from requisite Executive Director.
- Purchase order is issued to the approved vendor / supplier.
- Upon receipt of material / services, the same is verified against the bill / purchase order and entries are made in the respective stock records wherever applicable.
- Only upon the entry for receipt of material is entered in the respective stock records the payment process is initiated.
- The quotations, comparative statements and purchased order are attached to the voucher along with the invoices.

Following precautions must be observed with regard to quotations:

- Quotations should be on the letter head of the party with signature and official seal.
- The quotation should be in original and not a scanned copy
- The time gap between quotations should be reasonable (For instance one quotation dated 15th April and another quotation dated 15th June cannot be considered to be valid process)
- The quotations should be for same product (For instance the quotation for laptop from one vendor and for desktop from other vendor cannot be considered to be a valid process).
- Quotations should be filed in an easy accessible manner.
- There should be documentation on the negotiations undertaken with the supplier / vendor.

Procedure for procurement:**a) Capital items:**

Following table provides the policies for procurement under various categories:

Monetary limits	Policies
Capital items	
Less than Rs.10,000	Outright procurement
More than Rs.10,000 and less than Rs.20,000	At least 2 quotations (verbal or formal) Approval by 2 members of procurement committee Approval by Executive Director
More than Rs.20,000 and less than Rs.100,000	Three formal and written quotations Preparation of comparative statement Documenting the reasons for selection of supplier / party / vendor Approval by 3 members of procurement committee Approval by Executive Director
More than Rs.100,000	Three formal and written quotations Preparation of comparative statement Documenting the reasons for selection of supplier / party / vendor Approval by 3 members of procurement committee Approval by Executive Director Ratification / approval by any of the board members

b) Services:

Generally the hiring of services is based on the known skilled sets. Therefore, for specific skilled services it is not possible to call for quotations. However, in case of services where different options are available or when such services are hired for the first time or where the services involves sizeable amount of investment; then the following procedure is followed:

Services	
Less than Rs.20,000	Outright hiring of services from known services providers.
More than Rs.20,000 and less than Rs.100,000	At least 2 formal written quotations Approval by 3 members of procurement committee Approval by Executive Director
More than Rs.100,000	At least three formal and written quotations Approval by 3 members of procurement committee Approval by Executive Director Ratification / approval by any of the board members

c) Consumables:

Following is an illustrative list of consumables:

- Stationeries
- Seeds and fertilizers
- Computer consumables
- Printing for different formats
- Educational material (for school children)

NEEDS is located in a place where there are limited number of suppliers and registered dealers. Therefore, though the requirement of calling for quotations has been defined strictly for capital items, for consumables the suppliers are generally defined based on the limited suppliers available in Deoghar.

The following table provides the policies for procurement of consumables:

Category	Policy
Stationery	Quotation is called at the beginning of the financial year and the rates are negotiated for the year
Seeds and fertilizers	The suppliers are defined
Computer consumables	Generally the suppliers are defined. In cases where the consumables are not available in Deoghar then the procurement is made from Kolkata or Ranchi
Printing of different formats	Formats include the passbook and other required stationeries for SHGs. Quotations from three parties are to be called for when printing cost exceeds Rs.5,000. ED's approval is obtained for issuing work order
Establishment cost	2 or 3 Quotations are called for any procurement exceeding Rs.5,000 Comparative statement is prepared Approval from 3 members from procurement committee is obtained Approval from ED is obtained
Educational material (books for children)	Material to be procured on MRP basis, say books, will be outright purchase For other materials, 3 quotations are to be called which should be for comparable items for procurement beyond Rs.20,000 Comparative statement is prepared Reasons for selection of vendor is documented Approval by three members of procurement committee is obtained Approval of Executive Director is obtained.

5.4 CONTROL OVER FUNDS

5.4.1 CASH CONTROLS

Cash control involves:

- a) Withdrawal of cash
- b) Receipt and Payment
- c) Making relevant entries for cash receipts and payments in manual cash book and in the accounting package
- d) Control and security features

Each of these areas has been covered in detail in the following paragraphs:

5.4.1.1 CASH WITHDRAWAL

Cash is withdrawn in following two circumstances from bank account:

- a) When cash in hand is lesser than the minimum required balance or
- b) When requests received for cash payments / advances are higher than the available cash in hand.

Following are the key points to be kept in mind for the purpose of cash withdrawal:

- 1) Cash is to be withdrawn only when any of the above-mentioned circumstances arises.
- 2) Minimum balance of cash in hand to meet the uncertain and emergency payments should be Rs.20,000.
- 3) Cash will be withdrawn once in a week on need basis (on Tuesdays). Withdrawal of cash more than two times in a week should be avoided. Further, cash should not be withdrawn on weekends.
- 4) Duly signed cash withdrawal format must be necessarily attached to the voucher.
- 5) Entries are first made in Tally and then at the time of receipt or disbursement of cash the entries are updated in manual cash book with the voucher number as generated by Tally.
- 6) All the vouchers related to cash transactions such as cash receipt, cash payment and contra vouchers are printed and filed in the respective voucher files.

5.4.1.2 CASH PAYMENTS AND RECEIPTS

Following precautions should be observed while processing cash transactions:

- 1) Cash payment against approved requests / indents should be processed immediately upon withdrawal of cash. It should be ensured that the payment is in accordance with the requests / indents. In case of any deviations from the approved requests / indents, the reasons for such change should be documented and specific approval should be obtained from ED.
- 2) The cash requisition / advance / indent format should be attached to the voucher.
- 3) In case of approved staff advance settlements, it should be ensured that the balance amount receivable / payable is also settled and the advance account is nullified.

- 4) In case of refund of staff advance, the person returning the money is receive a money receipt.
- 5) Cash payments to other than staff members should not be made for more than Rs.2,000
- 6) In case of payment in excess of Rs.2,000; reasons should be documented and the request should be duly approval by the designated authority.
- 7) The availability of the budgets should also be reviewed before processing the payment.
- 8) Revenue stamp is to be affixed on all the payments in cash exceeding Rs.5,000.
- 9) Receiver's signature should be obtained on the voucher.
- 10) In case of refund of advances (cash receipts), after verification of all the supporting documents, cash is deposited with the Accounts Officer (Procurement) for which entry is made in the manual cash book.
- 11) On the basis of manual cash book, the entries are made in Tally.
- 12) The cash receipt voucher along with the supporting documents is filed in the voucher file.
- 13) Any amount in excess of minimum cash requirement is deposited in the respective Bank Accounts.

5.4.1.3 MAKING ENTRIES FOR CASH TRANSACTIONS:

- 1) Two separate cash books are maintained – one for Indian funds and other for foreign funds.

The cash book for foreign funds has the following columns:

- a) Date
- b) Particulars
- c) Project name
- d) Voucher number
- e) Amount

For Indian funds, the manual cash book is maintained with following columns:

- a) Date
 - b) Particulars
 - c) Voucher number
 - d) Separate columns for each source of funds for which separate bank accounts are maintained.
- 2) The entries for cash transactions are first made in Tally accounting package and then the voucher with all supporting documents are submitted to the Accounts Officer (Procurement) for making payment.
 - 3) Upon making the payment, the manual cash book is updated and the voucher number as generated by Tally is also updated for cross referencing. Therefore, the Accounts Officer (Procurement) does not have the access to make entries in Tally.
 - 4) On daily basis the manual cash book balance is verified against the balance as per Tally to ensure that all the entries are made in the manual cash book as well and the balances reconcile.
 - 5) In case of cash advances following sequence of entries are passed:

- a) The entry for cash advance when advance is released;
- b) The entry for balance amount (either cash receipt or cash paid entry) along with the adjustment of advances.

For instance, in case of unspent cash balance being refunded, following entry will be passed:

Debit the expenditure line items in accordance with the budget line items.
Debit cash receipt
Credit the advance account.

In case of cash payment over and above the advance amount, following entry is to be passed:

Debit the expenditure line items in accordance with the budget line items.
Credit the advance account.
Credit cash payment

5.4.1.4 CUSTODY AND SAFETY OF CASH

- 1) The cash is maintained in the custody of Accounts Officer (Procurement)
- 2) For the purpose of maintaining better control on cash, Accounts Officer (Procurement) does not have access to make entries in Tally accounting package.
- 3) Cash-in-transit and employee fidelity insurance for cash is obtained to cover the risks related to cash.
- 4) To ensure that excess cash balance is not held in hand, withdrawal period as defined should be strictly followed and ensured that at any point in time the cash-in-hand should not exceed the insured amount.

Exist to Impact

5.4.2 BANK CONTROLS

This section provides deeper understanding on control and management related aspects pertaining to bank management. However, it excludes the components of investments of funds in term deposits and other investments.

Separate bank account is opened only when it is mandated by funding agency or when the quantum of the grant sanctioned is of sizeable amount. In addition to the bank account for projects following additional bank accounts are also maintained:

- a) Designated bank account for foreign funds as mandated by FCRA;
- b) Common bank account for Needs Operating Funds (NOF) which includes funds from Indian sources or funds for smaller projects for which separate bank account is not required to be opened.
- c) Bank accounts at the field level for facilitating easy processing of payments.

The details with regard to the authorized signatories for all the bank accounts have been provided as an annexure to this document.

The control procedures pertaining to bank management includes the following major components:

- a) Deposits
- b) Utilization and
- c) Management

The details for each of these components are provided as under:

5.4.2.1 DEPOSITS

- 1) The funds are prudently deposited in the concerned bank account either on the day the cheque is received or latest the next day.
- 2) Vouchers are printed for receipt of funds.
- 3) The formal receipt is submitted to the funding agency acknowledging the receipt.
- 4) The actions required to be taken on investing the funds (to the extent not required immediately) in short-term deposits are initiated. For details in this regard kindly refer to the section 5.4.3 on investments.

5.4.2.2 UTILIZATION

Following are some of the control procedures followed for ensuring best control pertaining to bank management:

- 1) Processing of payments is generally based on the approved monthly indents.
- 2) For any payments outside of the monthly indents, specific approval is obtained in accordance with the delegation of authority.

- 3) Upon receipt of sufficient supporting documents and approvals, entries are made in Tally.
- 4) Voucher is printed from Tally and then the same with all the supporting documents are verified by the Accounts Officer. Thereafter these are submitted to ED for verification.
- 5) All the cheques require signatures of minimum two signatories. As mentioned earlier the details of signatories with the monetary limits are annexed to this manual.
- 6) Bank reconciliation statements are prepared on monthly basis by the accountants and the same are verified by the Accounts Manager.



5.4.3 INVESTMENT CONTROLS

At NEEDS, the funds are generally refers to project funds. Therefore, upon receipt of the grant, a cash flow statement is prepared to arrive at an amount in excess of the immediate requirement (say beyond a quarter).

In this regard following procedures are followed:

- 1) Cash – flow statement is prepared to arrive at the amount available for investing in short term deposits;
- 2) Based on the documented cash-flow statement, investments are restricted to short term deposits as per the provisions of the section 11(5) of the Income Tax Act;
- 3) If the amount available is sizeable, then the investment is broken into smaller amounts such that pre-mature withdrawal investment is not required;
- 4) The details of investments are maintained in excel worksheet to keep track of due dates for receipt of interest and maturity of the investment;
- 5) The investment made is earmarked according for the funding agency;
- 6) Approval from funding agency is obtained to utilize the interest on such investment towards NEEDS administration expenses;
- 7) The investments are made in the name of NEEDS;
- 8) The physical copies of investments are maintained with the accounts manager.

In addition to such investments, NEEDS also enters into an arrangement with bank to transfer the excess fund from the savings bank account to short term fixed deposit with a standing instruction to transfer to reverse the same in case of short of funds in the savings bank account.

5.4.4 ADVANCES MANAGEMENT

Following various aspects are related to the advances management:

- a) Advance request
- b) Utilization of advance
- c) Settlement of advance

These have been covered in detail as under:

a) Advance request:

- The request for advance is to be placed in the prescribed format being annexed to this manual vide annexure number.
- Complete details must be filed up in the format for requesting for advance. Especially in case of advance for travel expenses, the details such as number of people travelling, number of days for travel, mode of travelling, break-up of amount requested towards advance (an approximation) must be mentioned. This facilitates in assessing the propriety of the amount requested.
- Approval from the designated authority must be obtained on the advance requisition format.

b) Utilization of the advance:

- The basis as documented in the requisition format is only indicative and hence utilization does not necessarily be limited to the break-ups provided in the advance requisition.
- Following precautions should be observed while utilizing advances:
 - ✓ Payment in excess of Rs.5,000 is made by account payee cheques. Therefore to the extent possible payment from advances in excess of Rs.5,000 should be restricted.
 - ✓ Revenue stamp is to be affixed on payment exceeding Rs.5,000
 - ✓ NEEDS has defined / prescribed policies and procedures related to procurement and hence any payment in the nature of procurement either should be avoided to be made from advances or if made, then the prescribed procedures should be followed. Further, the need for making payment from advances should also be documented.
 - ✓ Supporting documents should be obtained for the payments made to the extent possible. Wherever the supporting document / bill is not available, reasons for the same should be documented in the advance settlement statement.

c) Settlement of advances:

- The advances should be settled within 2 working days of utilization of advance or returning from the official tour.
- The advance settlement should be made against the format prescribed. Format for the same is annexed vide annexure number XXX to this manual.
- The project and budget line item must be mentioned on the advance settlement format for facilitating the accounts department to make necessary entries

- Approval from the designated authority must be obtained before submission of the same to the accounts department for processing.
- The balance amount receivable / payable should also be settled along with the settlement of advance.
- Further advances should be processed only when the earlier advance is closed in all respects.



5.5 SUBSIDIARY RECORDS

All these subsidiary registers are maintained in order to exercise better control over the assets and resources of the organization. In each of the following sub-sections following aspects are covered:

- a) Purpose for maintenance of the record
- b) Designated person to update the record
- c) Frequency and periodicity for updating the record
- d) Verification of the records
- e) Format for the records

5.5.1 FIXED ASSETS REGISTER

a) **Purpose:**

- The fixed assets register is maintained to keep record of all the assets being capitalized. All the assets whose value is more than Rs.5,000 are capitalized.
- The record is maintained category wise for easy accessibility of information.
- All those items whose value though is less than Rs.5,000 but are more in number and on which a control is required are documented under consumables register.
- It is maintained in a manner to facilitate physical verification of the assets and also to generate funding agency wise reports on assets.
- It also facilitates generation of report on location wise assets.

b) **Designated person:**

Fixed assets register is maintained by Accounts Officer (Procurement)

c) **Frequency and periodicity:**

Receipt:

Entry in fixed assets register is updated upon delivery / receipt of the asset. The folio number of the asset register is also updated on the invoice for cross reference.

Sale / Discard:

The asset register is also updated for the sale / discarding of the asset for which special approval is obtained from ED and from funding agency (if required to be obtained). The details such as the sale price / discarding cost are also documented against these assets.

d) **Verification of records:**

• **Internal Auditor:**

The internal auditor verifies completeness of the fixed asset register during the course of internal audit.

• **Statutory auditor:**

Fixed assets physical verification is conducted annually by the statutory auditor against the register maintained and the books of account.

e) **Format of fixed asset register:**

Categorization of assets:

Assets have been categorized as follows:

- Computer and accessories
- Furniture

- Vehicle
- Office Equipment
- Plant and machinery
- Land and building

Format for asset register:

Following columns are maintained for each category of asset:

- Item Description
- Units
- Asset identification number
- Supplier Name
- Model Description
- Invoice Number
- Invoice Date
- Voucher Number
- Voucher Date
- Amount (Rs.)
- Location of the asset
- Project Name
- Funding Agency Name



5.5.2 CONSUMABLES REGISTER

a) Purpose:

As mentioned earlier all the items whose monetary value is less than Rs.5,000 but are more in quantity and also on which NEEDS wants to have control are updated in this register.

b) Designated person:

Similar to fixed assets register, consumables register is also maintained by Accounts Officer (Procurement).

c) Frequency and periodicity:

The consumables register is updated at two instances

- Upon receipt of the items
- Upon discarding the items

d) Verification of records:

Like fixed assets register, the consumables register is also verified by Internal Auditor during the course of internal audit.

f) Format of consumables register:

Categorization of consumables:

Consumables have been categorized as follows:

- Computer accessories
- Furniture and fittings
- Vehicle spare parts
- Office Equipment
- Plant and machinery

Format for asset register:

Following columns are maintained for each category of asset:

- Item Description
- Units
- Asset identification number
- Voucher Number
- Voucher Date
- Amount (Rs.)
- Location of the asset
- Project Name
- Funding Agency Name

5.5.3 STATIONERIES REGISTER

a) Purpose:

At NEEDS, stationeries are procured centrally for all the projects and for office use. Hence in order to charge the cost to respective source of funds, a stationeries record is maintained.

b) Designated person:

The stationeries register is updated by Office Secretary.

c) Frequency and periodicity:

The stationeries register is updated at following instances

- Upon receipt of the items
- Upon issue of the items
- Upon generating internal bill for charging to the projects

d) Verification of records:

On monthly basis Office Secretary, in consultation with the Accounts department verifies the record to ensure that all the entries for the month (both in terms of receipt and issues) are updated so that the same can be charged to the respective projects.

e) Format of stationeries register:

Categorization of stationeries:

There are various categories in the stationeries register. Every small item related to stationeries had a separate place in the register. This is done in order to exercise control over usage of stationeries and placing of order for stationeries after considering stock on hand.

Format for asset register:

Following columns are maintained for each category of asset:

- Date
- Particulars (In case of receipt name of the supplier from which stationeries are procured and in case of issues project name)
- Receipt (quantity, rate and amount)
- Issue quantity
- Balance of stock
- Remarks (signature of the concerned person taking delivery of stationeries)

5.5.4 AGRICULTURE RELATED INPUTS

a) Purpose:

NEEDS undertake various projects related to agriculture and therefore, a separate register for each project is maintained for agriculture related inputs. This helps NEEDS to exercise better control over usage of the inputs, for considering stock on hand before placing order and also for conducting analysis on requirement of various agriculture related inputs.

b) Designated person:

The record for agriculture related inputs is maintained by Office Secretary.

c) Frequency and periodicity:

The input record is updated at following instances

- Upon receipt of the items
- Upon issue of the items

d) Verification of records:

The Accounts officer (Procurement) verifies the inputs register before placing the order for any inputs to ensure that the order is place only after reaching the re-order level. In addition to this, the Accounts Officer and the internal auditor also verifies this record.

e) Format of stationeries register:

Categorization of inputs:

There are various categories of inputs required for agriculture. All the major items related to the agriculture are included in this register. This is done in order to exercise control over usage the usage of inputs and placing of order after considering stock on hand.

Format for inputs:

Following columns are maintained for each category of inputs:

- Date
- Particulars / place (In case of receipt name of the supplier from which inputs are procured and in case of issues name of the concerned staff member)
- Receipt (quantity, rate and amount)
- Issue quantity
- Balance of stock
- Remarks (signature of the concerned person taking delivery of inputs)

5.5.5 IEC MATERIAL / LIBRARY RECORDS REGISTER

a) Purpose:

IEC material / library record includes books and periodicals, charts and CDs. This record is maintained for exercise control over these materials which though not big in number but acts as quality resource for NEEDS.

b) Designated person:

The IEC material / Library record is maintained by Executive Secretary.

c) Frequency and periodicity:

The IEC material / Library record is updated upon procurement of relevant material.

d) Verification of records:

• **Internal Auditor:**

The internal auditor verifies completeness of the fixed asset register during the course of internal audit.

• **Statutory auditor:**

Fixed assets physical verification is conducted annually by the statutory auditor against the register maintained and the books of account.

e) Format of IEC material / Library record:

Categorization of IEC Material / Library record:

Following categories have been defined as at the date of preparation of this manual for IEC material:

- Agriculture
- Water
- Environment and food
- Women
- Children
- Health, Adolescent
- HIV / AIDS
- Livelihood and Panchayati Raj
- Organizational books (formats, annual reports, etc)
- Reading materials
- CD records

Format for IEC Material / Library record:

Following columns are maintained for each category of IEC Material / Library records:

- Serial Number
- Name of the book / material
- Project, wherever applicable
- Author, wherever applicable
- Publication, wherever applicable
- Code no.

5.5.6 SALARIES REGISTER

a) Purpose:

The provisions of Employees Provident Fund and Miscellaneous Provisions Act, 1952 salaries register is required to be maintained. In addition to this register, monthly salary statement is also prepared determining the amount of salaries charged to various projects. NEEDS maintains a common bank account for making payment of salaries and therefore, this statement helps in reconciliation of transfers made to the common and bank against the actual payment to the staff members.

b) Designated person:

The salaries register and all the relevant documents related to salaries are prepared by Accounts Officer (Procurement). Signatures are obtained from the staff members in the salaries register only from those employees who are covered under PF Act.

c) Frequency and periodicity:

These registers and statements are prepared on monthly basis.

d) Verification of records:

Accounts Officer (Procurement) verifies and reconciles all the statements and records related to salaries. Processing of salaries is initiated only upon preparation of all the statements and relevant records.

e) Formats for salaries:

Salaries register:

- Serial number
- Name of the employee
- Father's / Husband's name
- Address
- Designation
- Grade
- Basic
- HRA
- Conveyance Allowance
- Medical Allowance
- Leave Without Pay (LWP)
- Gross
- Deductions for PF and IT
- Net pay
- Signature of the receiver

Statement of charging to the projects:

- Funds available
- Serial number
- Name of the employee
- Amount (Rs.) and % of total salary for each project
- Grand total

5.6 RECONCILIATIONS

Following are various reconciliation statements are prepared at different time intervals to ensure control is exercised on the resources and possible errors are avoided. Each of the following sub-sections are divided into three parts such as:

- a) Purpose and advantage of preparation of reconciliations
- b) Designated person to prepare these reconciliations
- c) Periodicity of preparation of these reconciliations

5.6.1 CASH RECONCILIATION

- a) Purpose and Advantages:

Cash reconciliation refers to physical verification of cash against manual cash books and balance as per Tally. Cash reconciliation is done to ensure that:

- All cash receipts and payments are correctly entered in the books of account (Manual cash book and Tally);
- Cash on hand is in accordance with the balances as reflected in the cash book and Tally;
- Planning for withdrawal of cash

- b) Designated authority

As mentioned earlier cash is kept under the custody of Accounts Officer (Procurement) and the same is verified by the Accounts Officer.

- c) Periodicity:

Cash reconciliation is conducted at the end of every day. The manual cash book is signed for conduction of physical verification of cash by Accounts Officer

5.6.2 BANK RECONCILIATION

- a) Purpose and Advantages:

Bank reconciliation refers to verification of the transactions as entered in the books of account against the bank statements. Bank reconciliation is prepared to ensure that:

- All bank receipts and payments are correctly entered in the books of account;
- Planning for fund management (withdrawal of funds from fixed deposits);
- Verifying that the bank has correctly processed the receipt and payment;
- Verifying that bank has not charged some other account's payment or accounted for deposit erroneously;
- Account for bank charges and interest in the books of account based on the reconciliation statement.

- b) Designated authority

Bank reconciliation statement for all bank accounts is prepared by Accounts Associate which is then verified by Accounts Officer.

- c) Periodicity:

Bank reconciliation statement is prepared by 5th of succeeding month.

5.6.3 ASSETS RECONCILIATION

a) Purpose and Advantages:

Assets reconciliation refers to verification of the entries made in the fixed assets / consumables register against physical assets and books of account. Fixed assets reconciliation is prepared to ensure that:

- All the assets are correctly entered into fixed assets / consumables register;
- Project name is correctly mentioned in the respective register;
- Conducting physical verification of the assets against the entries made in the respective registers;
- Computing depreciation for the purpose of preparation of audited financial statements.

b) Designated authority

Fixed assets register is maintained by the Accounts Officer (Procurement) and the same is verified by the Internal Auditor and Statutory Auditor.

c) Periodicity:

During the course of its internal audit and statutory audit.

5.6.4 ADVANCES RECONCILIATION

a) Purpose and Advantages:

Advance reconciliation refers to the statement of outstanding advances not being settled before end of the month. Advance reconciliation process ensures:

- Timely closure of advances;
- Processing of further advance only upon closure of the previous advance;
- Circulating statement of outstanding advances to the concerned staff members.

b) Designated authority

Accounts Associate prepares a statement on outstanding advances which is then circulated to the concerned staff members.

c) Periodicity:

Advance outstanding statement is prepared on monthly basis (25th of every month).

5.6.5 INTER PROJECT / INTER SOURCE OF FUNDS RECONCILIATION

a) Purpose and Advantages:

Being supported by multiple funding agencies including Indian and Foreign sources, NEEDS faces circumstances where one project's expenses / source of funds are met from other project's funds / source of funds. Hence there arises a need for reconciling the project funds and make necessary transfers. Inter project / inter source funds reconciliation is prepared to ensure that:

- Transfers are made periodically and closing the inter project loans;
- Placing funds request to the funding agencies in case such inter project transactions are on account of insufficient funds.

b) Designated authority

Accounts Officer prepares the inter project / inter source of funds reconciliation which is then verified by ED to take necessary action.

c) Periodicity:

Inter project / Inter source of funds reconciliation statement is prepared on monthly basis (5th of every month).

5.6.6 FUNDS RECONCILIATION

a) Purpose and Advantages:

Fund reconciliation refers to verification of the project fund balances against physical cash / bank balances, advances and outstanding expenses. Funds reconciliation is prepared to ensure:

- The fund balance matches with the physical funds available;
- This will also reassure that the expenditure has been properly charged to the project;
- Submit funds requisition to the funding agency well in advance to avoid inter project loans.

b) Designated authority

Accounts Officer prepares the funds reconciliation which is then verified by ED to take necessary action.

c) Periodicity:

Funds reconciliation statement is prepared on monthly basis (5th of every month).

SECTION 6: AUDIT FRAMEWORK

In addition to the mandatory statutory audit, NGOs are also encountered with audits from funding agencies too. Further, in order to ensure best practices are implemented by NEEDS, internal auditor is also appointed by NEEDS. Hence, it is important to be prepared for these audits well in advance which will help in reduction in number of audit observations from various auditors.

With past and vast experience of NEEDS for various audits, following checklist has been prepared to facilitate smooth conduction of the audits. ED along with Accounts Officer ensures that this checklist is reviewed for compliance and need for updating prior to every audit.

- 1) In case of external audit (from funding agency), following documents are to be kept ready:
 - a) Copies of registration / exemption / recognition certificates under various statutes;
 - b) Internal policies and guidelines such as accounts manual and HR manual;
 - c) Reports (both financial and programmatic reports) submitted to respective funding agencies;
 - d) Responses / compliance report to the audit conducted for the same funding agency in past, if any;
 - e) Accounts related records and reports such as:
 - Vouchers related to the project for which audit is to be conducted;
 - All relevant subsidiary records (including those maintained at the field offices);
 - Internal / staff reports, if any;
 - Audited financial statements (atleast for last three financial years to be kept ready for verification by the auditors);
 - f) Annual returns filed under various provisions of different Statutes;
- 2) Ensure that all the records are up-to-date and all kinds of reconciliation statements as mentioned in this manual are prepared and are easily accessible;
- 3) The expenditures are prudently charged to appropriate budget line items;
- 4) All payments are approved by designated authority;
- 5) Sufficient supporting documents are attached to the vouchers and cross referencing to the respective subsidiary registers is updated;
- 6) Recommendations made by the internal auditor are complied and responses to the same are documented.

ANNEXURES

ANNEXURE 1: LIST OF BOARD MEMBERS

SL NO	NAME	DESIGNATION	ADDRESS
1	TANAY CHAKRAVARTY; Post graduate in Rural development from XISS; and Law Graduate	PRESIDENT	Ajiwika; Behind SBI training centre, William Town, Deoghar- 814112 +919431132527; 06432,236815; 230775
2	MURARI M. CHOUDHURY; Post graduate in Rural Development from XISS	SECRETARY	A/002 amra kunja apartment; 5A; Neogipara Road; Kolkata-36- 9431132344
3	C.C.SARKAR; P.Hd in Horticulture from UK, 40 years in development sector	VICE PRESIDENT	A-53 Ashiyana Nager, Phase -1; Patna-800025; 0612,2587092 09234284538
4	A.K. NAG; Bachelor in Medicine; Calcutta University, Secretary Vivekananda International society, Kolkata. 23 years in development sector	MEMBER	"Vivekenand International Health Centre"; 54 A.B.K Pal Avenue; Kolkata-700005 033,25307842 ; 09231518163
5	KARMA KACCHAP; Post graduate in RD from XISS and PG in theology	MEMBER	Catholic ashram chatra; Post-chatra; Dist-Chatra; 9431155657
6	CHITRA PAL; Chartered accountant,	MEMBER	1 Haribose Lane ; Kolkata-700006; 09830032399 033,25557296; 033,25439568
7	RITI KUMARI; MA in Sociology, 8 years in teaching	MEMBER	Nehru Yuva Kerndra Julu park Hazaribag; 06546,270301
8	MANJU DEVI [elected for one year only i.e. year ending 31/3/2010]; women SHG federation President	MEMBER	Village: Sadananddih; Block: Sarwa; Jharkhand
9	AULIE BANERJEE- MSc in bio technology with Calcutta University	MEMBER	7/1/1 Priya Nath Ghose lane; Howrah-711104; 03326676081
10	BHRAMER Mallik; Post graduate in RD from XISS , 8 years in development sector	MEMBER	c/o Gautam Dasgupta; C-16/5,Manjulika Housing Cooperative Society ; E.C.T.P, Phase-IV; Kolkata-107; 09836288255
11	KRISHNENDU SARKAR- M. Tech [electrical engineering and Information technology, currently Director of Knowledge management in Business school, 12 years in the sector	MEMBER	NSHM; Knowledge Campus; 124 [60] B.L.Saha Road Kolkata 09903250725