Pakistan Cente of Philantropy

Finance Policies and Procedures Manual

What's Inside:

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[Organization Name]

TEMPLATE of FINANCIAL MANUAL for CSOs

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INTRODUCTION

The xxxxx [name of the organization] is established under xxxx [name of registration law]. The xxxxx [name of the organization] shall pursue its objectives, as described within charter of the organization.

This manual aims to develop and maintain an effective system of internal control in order to monitor compliance with established policies and procedures of the organization. These policies and procedures principally focus on the following:

- Is to provide framework within which the Organization's financial guidelines and procedures are established.
- To make policies within that business transactions in the Organization are to be made.
- Adequate documents and records
- Assets are safeguarded, accounted for and controlled
- Independent checks on financial and non financial activities
- Proper authorization of transaction and activities
- Sufficient segregation of duties, wherever practicable

This manual of accounting policies, systems and procedures would be helpful to:

- The Board for monitoring compliance with prescribed policies and procedures
- New employees of the organization for adaptation to the policies, systems and procedures
- Work Force of the Finance Department for use as a guide to the accounting system and procedures
- Other non-financial executives / employees who work closely with finance and accounts staff.

Through this manual, we endeavor to develop and maintain an effective internal control system which would provide assurance about the safeguarding of assets and detection / prevention of deliberate or unintentional material misstatement(s). The policies and procedures discussed herein are also useful for the fair presentation of financial statements.

This manual primarily illustrates individual work steps in accounting process and recording the business events in the books of accounts. It is intended to provide assistance in coordinating efforts of groups of people working together to perform an activity, with certain time frame.

OVERALL CONTROL SYSTEM

The organization has two control systems, external control by the stakeholders of the business and internal control by the management. At the end of each financial year, an external audit of organization's projects and financial transactions is conducted. An independent firm of chartered accountants conducts such an audit.

As regards internal control system, its main objective is to safeguard the asset of the organization, ensure reliability of the accounts and achieve operational efficiency and effectiveness of the organization.

The organization is expected to build up a control environment with the following key fundamentals:

- Honesty,
- Ethical and principled morals,
- Ensuring that staff, at all levels, is competent to carry out the duties assigned to them.

Hence, it is imperative that employees adhere to high standards of personal integrity and set a good example to their subordinates.

The other key elements of the control environment are the communication of information and monitoring. Pertinent information must be communicated within the organization so that well-informed personnel may make well-informed decisions. Monitoring requires not only formal procedures such as internal audit, but cultivation of a culture of recommendations for improvements to existing systems and procedures.

Under the umbrella of this control environment the organization, through this manual, has developed policies and procedures to meet specific control objectives.

Chapter 1

Overall Accounting System

1. OVERALL ACCOUNTING SYSTEM

1.1 Basis of Accounting

The accounts of the organization will be prepared under the historical cost convention, except for those items where IAS specifically requires accounting at fair value, market value or present value.

1.2 Accounting Year

The financial year of the organization is from xxx– xxx (12 months).

12.1 Chart of Accounts

The organization will develop and maintain flexible and appropriate chart of accounts in order to cater the present and future monetary transactions with an objective of coming up with timely, accurate and meaningful reporting for the Governing Body.

The chart of accounts will act as a guiding and referring tool to the finance personnel while they post accounting entries to their respective head of accounts. In order to keep a vigilant control over accounting framework of the organization, no accounting personnel is allowed to make amendment (including opening a new head of account) in the chart of accounts unless specific written approval thereof is duly sanctioned by the Head of Finance. For this purpose, a form has been designed which would be required to be filled up by the initiating officer desirous of altering the present structure of chart of accounts. Such form, once approved, will be kept by the Head of Finance.

1.4 Vouchers & Forms

The finance personnel will be responsible to record and maintain financial records, related correspondence, accounts, statements, supports, etc. pertaining the organization. For effective and accurate maintenance of accounting records, a set of internal documents, forms have been designed which will be used for initiating and recording financial transactions.

Payment Voucher

- Payment can be made after approval of payment voucher. Payment voucher will be supported with bills or other relevant supporting documents. Such supports will be scrutinized by the finance department prior to their submission for sanction of payment before the approving authority.

- All cash payments will be recorded through cash payment vouchers and all bank payments will be recorded through bank payment vouchers.

Receipt Voucher

- Receipt voucher will be prepared to record the receipts and collections in bank accounts.

- Cash receipt transactions will be recorded through cash receipts.

Journal Voucher

Journal voucher (JV) is prepared to evidence the authorization to record non-cash transactions. A non-cash transaction is one which does not involve the actual receipt or / and payment of funds but the recognition of which in the books of account is fundamental to properly reflect the operating results and financial position of the organization.

As a pre-requisite of the accrual basis of accounting, all accruals will be recorded on a monthly basis. Such accounting entries will be routed through JVs. All JVs will be prepared not later than two weeks from the close of relevant month.

1.5 Books of Accounts / Records

In addition to the above mentioned different types of vouchers, the organization will keep and maintain the following information / record:

- Cash / Bank Book
- General Ledger
- Salary Register
- Bank Statements & Reconciliation's
- Fixed Assets Register
- Employee Personal Files
- Invoices
- Bank Deposit Slips
- Cheque Books
- Purchase Orders
- Receipts
- Invoices
- Donors' s Subsidiary Record

And any other record and information considered necessary.

1.6 Recording business transactions

All the financial transactions will be processed and recorded within a reasonable time of happening of any event. The test of 'reasonableness' will be judged on basic criteria as to availability of timely, accurate, meaningful information for internal and external users of financial statements.

The Head of Finance will ensure that, at all times, the organization's books of accounts reflect true picture of its financial affairs and no significant event is deferred from appropriate recording.

1.7 Pre numbering entries

All entries will be allotted sequential numbers so as to ensure completeness and proper authorization thereof. Any entry recorded out of the prescribed sequence would require immediate and thorough scrutiny to dispel the impression of any deliberate event. A written report of such inquiry will need to be submitted to the Head of Finance, who would then decide future course of action.

1.8 Review of accounting entries

All accounting entries will be submitted to the Head of Finance for his approval. Such entries will not be considered unless they are supported through documentary evidences originating such transaction(s).

After necessary approval, such entries should be posted in their relevant head of account. If this is not possible due to peculiar nature of the transaction, the matter should be referred to the superior personnel for proper guidance.

1.9 Segregation of Duties

In order to keep a meaningful check over the affairs of organization, segregation of duties is a must, whenever practicable. Segregation of duties means distributing the execution of one activity over more than one person in order to ensure that no single individual is capable of handling the whole of a transaction individually.

If it is not practical to segregate any duty due to its operational nature and / or limited staff members, the management should ensure that all transactions are duly authorized and supported with all necessary documents and properly recorded in books of account in a timely manner.

1.10 Correction of entries

Ensure that in case of omission, error of disposition / classification, etc. the correction should always be routed through JV. To confirm this procedure in the computerized accounting software, access controls have been placed which prohibits and restricts the individual responsible for data entry from re-entering and accessing the recorded data.

1.11 Audit Trail

At the time of approving the accounting entry, the Head of Finance will ensure that adequate and reliable audit trial of the subject transaction exists and that the entry would be easily auditable at the time of internal or external audit. Such audit trial would, ideally, start from the financial statements and end up at the related source document(s).

1.12 Custody of Accounting Records

All the accounting records, including but not limited to ledgers, statements, accounts, vouchers, invoices, banking records, record of procurement and sales, etc. should be in the custody of the accounting personnel. The Head of Finance should ensure that adequate facilities exist for custody of accounting records. Such records should be kept and maintained for a minimum 5 years from the relevant year-end.

1.13 Computerized Accounting Software

Organization shall ensure that effective access controls are in place to restrict abuse of control environment in the accounting software.

All access rights should be well defined to the users of software. To specifically address this issue, written guidelines should be circulated among the intended users of software specifying clearly the working methodology.

Chapter 2

Accounting Policies & Recognintion Criteria

2. ACCOUNTING POLICIES AND RECOGNITION CRITERIA

2.1 Grants / Donations

Grants/Donations are recognized in accordance with the International Accounting Standers.

2.2 Revenue

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the organization.

2.3 Restricted fund

The restricted fund comprises the accumulated surplus and deficit of donations and grants for which the donor has specified an intention to support a particular aspect of activities together with income accruing directly to those restricted funds. Surpluses are held until they are fully expended or returned at the end of the respective grand period.

2.4 Unrestricted fund

The unrestricted fund comprise the accumulated surplus and deficit of untied funds / donation and grants which are used by the organization for its various project activities, according to its other programs / plans.

2.5 Fixed Assets

These are stated at cost less accumulated depreciation. Depreciation on these assets is calculated by applying the straight-line balance at specified rates to write off the cost of assets over their estimated useful lives. Depreciation is charged on quarterly bases.

Major renewals and improvements are capitalized whereas normal repair and maintenance costs are charged to income as and when incurred. Gain or loss, if any, on disposal of assets is included in current year's income.

In case of financial reporting of individual project activity, all fixed assets are recognized as period cost. However, detail of the assets as on reporting period should be disclosed in the financial statements.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts.

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognized.

2.6 Financial Assets (Investments)

The organization classifies its financial assets in the following categories:

a) Investments at fair value through profit and loss
b) Held to maturity investments.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade date, the date on which the organization commits to sell or purchase the assets.

- **Fair Value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets, designated upon initial recognition, at fair value through profit and loss. Financial assets at fair value through profit and loss are carried in the balance sheet at their fair value, with changes therein recognized in the income for the year. Assets in this category are classified as current assets.

- **Held to maturity**

No-derivate financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the organization has the positive intention and the ability to hold these assets to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the effective interest method, less impairment.

- **Impairment**

The organization assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

2.7 Allocation of Common Cost

Common costs are cost used by more than one activity and cannot be allocated to single project activity. Examples of such cost could be:

- Rent
- Staff Salaries
- Utility Bills
- Depreciation of computers, vehicles, furniture & fixture

Common costs should be allocated to the activities on a basis consistent, to the extent possible, with the actual use of the resources by individual activities.

Chapter 3

Purchases

3. PURCHASES

3.1 Budget

All requests to spend money for purchase of goods, either capital or revenue item must have legitimacy or proper justification. Normally, the request for purchases is included in the budget proposal and approved as part of that budget. The criteria for approving such expenditure will take into account the operational as well as financial factors surrounding such item requested for procurement.

3.2 Purchase Requisition Form

Before making a formal requisition for purchase of any particular item, the concerned personnel will check with the Stores / Inventory to ascertain whether the subject item is already lying in the stock in hand.

3.3 Quotation

Where value of goods exceeds *Rs. xxx/-*, quotations will be obtained from at least three suppliers. Following factors will be considered in reviewing quotation and awarding contracts:

- Prices
- Bidder's previous track record in general
- Other customers of the bidder
- Organization's previous experience with the bidder
- Ability of bidder to render satisfactory service
- Capacity to effectively address after sales problems / service

After all quotations have been received and examined for completeness, a dated summary sheet will be prepared enlisting all the necessary details.

3.4 Approval of Quotations

Contract should ideally be awarded to the lowest bidder after an evaluation of the quotations submitted by them. However, besides financial concerns, weight age should also be given to non-financial and other qualitative factors before a final decision. A written explanation of factors leading to final decision regarding award of contract will be documented.

Requisitions for purchase of goods must be approved by the appropriate individual prior to issuance of any purchase order. The approving authority should ensure that approved budgets are complied with. A 15% budget overrun in any budget head requires prior approval of the Executive Director, whereas any amount beyond 15% requires Board's approval.

3.5 Financial Approval Limits

Personnel authorized to approve expenditure are:

Value of Purchase / Service request	Approval Required from
Up to Rs. XXX	Head of Finance
Up to Rs. XXXX	Chief Executive
Above Rs. XXXXX	Chairperson BoD

The above limits shall apply to all payments other then monthly salary, which will be approved by the Executive Director.

3.6 Purchase Order

After selection and finalization of quotation and approval of purchase requisitions, a Purchase Order (PO) will be issued in the name of selected supplier. This PO will be signed by the Head of Finance and contain the following information:

- Reference to the bid submitted by the supplier
- Quantity ordered by the organization
- Desired date of delivery of goods
- Exact specification of the product(s)
- Terms of the contract
- Agreed Price for the contract
- Payment Terms
- Other Stipulations

Before issuance of PO, this would be entered into Purchase Order Register for future reference. This register would be maintained by the staff responsible for procurement and ordering function.

3.7 Receiving Function

Once the ordered goods are received, a Good Received Note (GRN) will be prepared. The GRN shall carry comparison of goods received with goods ordered and will also contain evaluation comments by the authorized personnel of the ordering department.

3.8 Processing & Payment of Invoice

Designated employees who are preferably independent of purchasing and receiving functions should process vendors' invoices. While processing, reference should also be made to the applicable rate of sales tax, which would only be charged by suppliers registered with the Sales Tax Department. As a policy matter, all suppliers charging sales tax on their invoices should be requested to furnish their registration certificates before their invoice is put for processing.

With the receipt of GRN by the accounts department and the related invoice, the receipt of goods will be recorded in the General Ledger with corresponding credit to the supplier in the Purchase Ledger and a simultaneous credit in the control account in the Accounts Payable Ledger. This practice will evenly follow even in cases where goods are received but no invoice is received.

At the end of every month, a reconciliation report would be prepared between the General Ledger and the Purchase Ledger. The difference(s) would be noted and investigated till satisfactory disposal of the same.

<u>Payments</u>

For the disbursement, the cheque would be attached with the following supporting documents in original, such as:

- Payment Voucher

- Purchase Order
- Goods Received Note
- Invoice from the supplier

The disbursement will be made through cross cheque and duly signed and authorized. At the time of releasing payments, the maximum monetary ceiling of the authorized signatories is to be considered, as approved by the Board. The organization shall discourage cash payment exceeding Rs. 10,000 except in case of the following:

- Utility Bills
- Government Taxes or Levies
- Staff Travel Allowance
- Staff Reimbursements
- Special cases, where the responsible person would allow cash payment after proper justification.

Payment shall be released or adjusted only if proper documentation accompanies with each payment request. Payments will be made in accordance with the terms already agreed with the concerned supplier.

Any request for advance payment to the supplier of goods and services shall be approved in accordance with the purchase policy. Advances to suppliers would be given in accordance with management's authorization.

Tax Deduction

Withholding income tax will be deducted from resident person and permanent establishment in Pakistan of a non-resident. This tax will be deducted at the time of payment and shall be deposited as per the law. In case the supplier has filed a tax exemption certificate, a note is to be placed on the concerned invoice and tax exemption certificate obtained from him for the purposes of record.

This would be followed by preparing income tax challans for total amount of tax deducted from all the suppliers. Afterwards copy of challan shall be handed over to the supplier or his authorized representative, after obtaining due acknowledgement.

Periodic tax statements under the Income Tax Ordinance will be prepared within the stipulated time.

Chapter 4

Payrole & Related Costs

4. PAYROLL & RELATED COSTS

4.1 Monthly Salary

A person who is hired on permanent basis in the organization requires completing 3 months probation period. An individual's salary is to be disbursed according to the terms and conditions mentioned in his appointment letter.

All employees, except daily wagers and support staff, should be paid through cross cheque issued in their name. At the time of approval of employees' salary expense for the month, a detailed report for each employee will be prepared containing the following information:

- Name of the Employee
- Staff Code
- Monthly salary
- Overtime for the month, if applicable
- Bonus, if any
- Leave Encashment, if any
- Leave Fare Assistance, if any
- Loan / Advance sanctioned to the employee
- Monthly deduction on account of loan or advance
- Payment on account of medical expenditure, if any
- Other allowances
- Any other payroll related information

The aforesaid report will be furnished to the Head of Finance for necessary approval, before approving salary disbursements Head of Finance should arrange comparison of gross salary with last month and obtain satisfactory reasons for change, if any. After the approval, the payroll officer will forward the cheque along with the bank letter mentioning all the staff accounts with their net salary for credit in their respective bank accounts.

4.2 Payroll Taxes

At the time of salary disbursement, income tax will be deducted as per Rule 45(1) of Income Tax Ordinance, 2001. Thereafter, due income tax will be deposited into the Government treasury through tax challan. The deducted amount of income tax is to be deposited within 15 days from the date of deduction thereof.

Periodic tax statements under the Income Tax Ordinance will be prepared within the stipulated time.

The parameters for computation of withholding income tax from payroll will be reviewed on a regular basis, especially after the announcement of the Federal Budget and modification(s) shall be incorporated on an immediate basis.

Chapter 5

Fixed Assets

5. FIXED ASSET

5.1 Overall Policy

Capital expenditure is budgeted at the beginning of the year and forms part of organization's annual budget. Enhancement of capital expenditure or change of budgeted amount can only be approved by the Executive Director up to a maximum of 15%, Boards approval is required beyond 15%.

Adequate and strong controls should be kept over fixed assets and their related records to ensure that all fixed assets are recorded in the books of accounts with appropriate carrying costs and all recorded assets existing in the organization are safe guarded and operational.

All assets shall be recognized in books of accounts in accordance with policy framework of this manual. IAS 16 will remain the key principle for the accounting of fixed assets.

5.2 Requisition

See Purchases.

5.3 Quotation

See Purchases.

5.4 Ordering

See Purchases.

5.5 Receiving

See Purchases.

5.6 Recognition and Capitalization Policy

As per our policy, minor renewals replacements, maintenance and repairs less than Rs. 10,000/- are charged off as an expense, as and when they are incurred, while major renewals and improvements are capitalized.

Hence, an items shall be recognized as fixed assets only when:

- It is probable that future economic benefit will flow to the organization as a result of its acquisition;
- The cost per individual item exceeds Rs. 10,000; and
- Item have useful life of more than one year.

Based on the nature of items, the Management may decide to capitalize an individual item of less than Rs. 10,000/-.

Cost of Asset

Cost of an asset includes purchase price, installation cost, import duties, all non-refundable Governmental taxes and cost of bringing the asset into working condition. All trade discounts and rebates are deducted in arriving the purchase price.

Subsequent Expenditure

Any subsequent expenditure on non-expendable items, which extend the useful lives, enhance the capacity or substantially reduce the operating cost, should also be capitalized.

5.7 Physical Identification of Assets

At the time of acquisition, all assets should bear exclusive identification of reference. This identification mark should be tagged and entered into Fixed Assets Register. Donor emblem should also be affixed on all donated assets while the rest of the assets will be assigned relevant code and tagged for the same.

A register will be maintained for all fixed assets containing:

- Description & cost of each item
- Date of acquisition
- Location of asset
- Item Code
- Rate of depreciation and per year charge
- Accumulated depreciation

Fixed assets records must be reconciled with General Ledger on a regular basis. The finance personnel shall take a physical inventory of all fixed assets at least annually to ensure the completeness and accuracy of the records. The inventory of assets on hand shall then be compared to actual. All the differences will need to be resolved by a responsible staff member. Any write off as a result of physical verification of fixed assets should require BOD approval.

5.8 Donor Related Assets

Assets purchased under any program of the donor agencies will remain the property of the donor agencies unless otherwise specified in the agreed terms and conditions. Due care should be taken for the safety and maintenance of such assets. At the end of the program, either the assets will be transferred to the donor agencies or shall be disposed off according to the terms and conditions.

5.9 Insurance of Fixed Assets

The organization should arrange comprehensive insurance coverage from approved insurance agents for all high value movable assets against theft and fire and all non movable to be insured against fire only. The insured value is taken at current market replacement value. The renewal of insurance *will be carried out on a yearly basis.*

Upon receipt of premium estimate from insurance company, the concerned officer will obtain the approval for getting the asset insured. On receipt of premium notice, disbursement will only be made through cross cheque in the name of insurance company. A comprehensive record of insured assets will be maintained.

Relevant files should also be maintained for every insurance policy relating to organization’s property. The value of sum insured will be reviewed annually.

Assets received from the donors in kind should be insured in a similar fashion as the bought assets purchased, subject to donor funding.

5.10 Depreciation

Depreciation is charged to income from the year of acquisition to the year of disposal, on quarterly bases. Depreciation rates reflect the useful lives of the assets. The annual depreciation rates, applied on a straight-line basis, are as follows:

Lease hold improvements	20%
Furniture and Fixture	20%
Computer & Equipments	33.33%
Motor Vehicles	20%

5.11 Useful Lives

The useful life of an asset will be estimated after consideration of following factors:

- Expected physical wear and tear; and
- Technological obsolescence

5.12 Disposal of Assets

Disposal of fixed assets should be undertaken through tenders, auction or a private sale, whichever is suitable as approved by the Governing Body. A private sale would only be considered where the sales price can be reasonably / accurately assessed, and there is a possibility of fetching higher prices as compared to other modes of disposal.

Where the fixed assets, intended for disposal, comprise equipment, the estimated sales value is to be determined by using outside independent experts.

At the time of intended disposal of an asset, Head of Finance will issue an inter office memo to the Chief Executive, containing the following.

- *Specification and description of the asset*
- *Reasons for disposal*
- *Where possible, an estimate of the realizable value*
- *The mode of disposal of asset, as per the donor's policy*
- *Comparative statement of bids in respect of tender*
- *Draft sale agreement / transfer note, in case of intended private sale*

After approval from the Chief Executive, the sale shall be executed. Simultaneously, the responsible official who is knowledgeable and not directly responsible for the assets will remove the subject fixed asset from the premises.

At the time when asset is retired, the following procedures shall apply to record the transaction:

- The cost of the disposed asset shall be removed from the Fixed Assets' Register
- The related accumulated depreciation shall be removed from the allowance for depreciation account; and

- The profit and loss account, adjusted for the cost of removal, shall be recorded as income (gain) or expense (loss).

A report will also require to be furnished to the Chief Executive containing the following details:

- Disposal value of the asset
- Mode of disposal
- Gain and loss on disposal of fixed assets
- Auctioneers receipt memo in case of auction
- Issues receipts
- Banking of fetched value

Where the asset is returned to the original donor, the applicable process for retirement (as above) shall, *mutatis mutandis* apply.

Chapter 6

Investment Policy

6. Investment Policy

The Governing Body of the organization lays down the Investment Policy with regards to the deposit, investment and disbursement of all funds of the organization.

The investment policy of the organization provides for:

- Safety and marketability of funds
- Reasonable yield on invested funds and
- Minimum idle cash in working funds

A Committee of Finance and Investment will be established by the Board which, in view of the policy laid down by the GB supervises the implementation thereof by ordering that the securities of the organization be bought, sold, exchanged, or assigned by the Chief Executive and the Head of Finance.

All surplus funds, as well as the reserves of the organization are to be invested. For this purpose the following procedure is to be followed;

For investment control, invested Funds are to be subdivided into two parts:

6.1 Working Capital

The Working Capital of the Funds is the amount required for normal needs. It is to be invested, so far as practicable, in income earning short-term Government securities, in short term notes of well-financed corporations, or in money market funds.

6.2 Investment Portfolio

The Investment Portfolio of the Funds consists of equities, fixed income securities and other types of investment. Safety of capital must be a prime consideration of investment. From time to time the Committee on Finance and Investment has to decide, based on the financial and economic conditions then prevailing, the ratio of equities and fixed income securities in the Investment Portfolio.

Besides the above mentioned, other options for investments are also available. However these may be considered after proper economic analyses demonstrate that they will produce a return equal to or greater than the return analyzed through equities and fixed income securities. These include;

- Purchase of real estate for use by the organization.
- Purchase of real estate as a source of rental income.
- Other prudent investments.

It is to be noted here that The Committee on Finance and Investment may take the advice of professional investment counsel in:

- Deciding the desired ratio of equities to fixed-income securities, and
- Authorizing purchases and sales of specific real estate, equities, or fixed income securities in the investment portfolio.

The various funds of the organization (General Fund, and Endowment Fund, and any other funds entrusted to the Committee) are pooled and invested as a unit. Profits or losses are allocated monthly, based on the percentage of capital each fund represents. All investment funds are to be treated equally.

Chapter 7

Revenue

7. REVENUE

7.1 Invoicing

On the basis of the goods delivered / rendering of services, the organization will issue pre-numbered sales invoices. The Head of Finance will duly sign all sales invoices. Such invoices should be posted in the sales ledger in reasonable time from the time of their issuance. Such Sales Ledger will be reconciled on a monthly basis with the General Ledger Control Account and differences identified, investigated and reconciled.

7.2 Credits to Customers

All the sales / service will be against advance cash payment / Bank draft or P.O.

7.3 Receipts

Control shall be established over all cash and cheque receipts which would be deposited promptly in the respective project's bank account or organization's own bank account. The Finance Department shall issue pre-numbered official receipt as an evidence of acknowledging of the receipt of funds.

Chapter 8

Financial Planning

8. FINANCIAL PLANNING

8.1 Budget Reporting

A budget is a financial plan of an entity relating to a period of time. It is prepared from a range of available data, within the overall guidelines and long term plans of the organization. As a part of monitoring funds and expenses, the organization will prepare the following Budgets:

- Revenue Expenditure Budget
- Capital Expenditure Budget

The budget year for organization will be XXX to XXX. The management is responsible to prepare the budget for the following year and present it to the Board for approval before the start of the budget year.

The budgets for donor funded projects will be prepared in accordance with the guidelines provided by the respective donor agency with the support of the relevant Program Unit. Organization's program must operate within the budget approved by the Donor Agency.

The Head of Finance shall ensure that expenditure should not be overrun. Any saving under the head of Fixed Expenditures such as staff cost, rent, insurance, premium, utilities bill and capital expenditure shall be utilized for any other purpose with prior approval of Donors.

8.2 Monitoring & Review of Budget

The budget should be monitored regularly and compared with actual results. A mid-year review of the budget should be made by the Head of Finance in the light of actual results; recommendations for upward or downward revision should be put for consideration by the Board.

Besides, on a quarterly basis, the budgeted data should be compared with actual experiences and variance report should be generated. This variance report should be submitted to the Chief Executive who would carry out investigations into all significant variances. While carrying out scrutiny, reasons for unusual or unforeseen fluctuations would be noted.

Chapter 9

Fund Managment

9. FUND MANAGEMENT

9.1 Bank Accounts

The organization will maintain a bank account for day-to-day operation approved by the Governing Body. Each program / project must maintain a separate bank account.

The Governing Body shall authorize to open the bank account in the name of the organization. At least two signatories duly authorized by the Governing Body shall operate bank accounts. A copy of approved signatories and specimens of their signatures will be lodged with the bank.

At present the signatories are:

Member Governing Body
Member Governing Body
Member Governing Body
Chief Executive
Head of Finance

Each financial instrument should bear two signatures as approved by the Board.

Accessibility of the cheque book should be strictly limited to Accountants department or any other person designated by the Board. Bank reconciliation statements should be prepared on a monthly basis and approved by the Head of Finance.

9.2 Cash Management

The sources of cash receipts would be either refund of working advance, donation, cash fee, etc. On receipt, a cash receipt would be prepared by the concerned personnel containing all the necessary details of the receipts. This cash receipt will be printed and used in a chronological sequence.

As a principle policy, an independent officer authorized by the Head of Finance will periodically count cash funds. This official would be independent from the official custodian of cash.

9.3 Donor Funding

As a principle, separate accounting record will be maintained for each project. Expenditure will be carried out in accordance with budgeted limits. Factors such as agreed terms and conditions of funding agencies will also be considered while expensing out funds.

Subject to the provisions of agreed terms and conditions, all financial policies and procedures shall be applicable and followed for incurring any expenditure related to donor agencies. The Head of Finance shall be responsible to submit Financial and narrative report in respect of each project activities to the respective donor agencies as per agreed terms and conditions.

9.4 Petty Cash Fund

To meet day-to-day cash expenditure of small amounts, a petty cash fund up to a maximum of Rs. XXXX/- will be maintained on imprest basis. In order to restrict petty cash fund only for small payments, no single payment out of it should exceed Rs. XXXX.

The Head of Finance will authorize every petty cash expense or any other person authorized by the Board. For custody of petty cash, a steel box would be used which will be kept in locked safe under the custody of Head of Finance. Any shortfall found in the petty cash fund would need to be made good by the custodian thereof.
A person authorized by the Head of Finance will maintain petty cash register to record petty transaction on daily basis.

Chapter 10

Reporting

10. REPORTING

The financial management system should provide complete, reliable, consistent, timely and useful financial management information and financial statements. Some of the reports to be generated as a regular feature are as follows:

Internal Reports:

- Project Reports
- Aged Receivables
- Aged Payables
- Cash Flow Position
- Variance analysis between budgeted costs / revenue and actual data, spelling down the reasons of significant variations
- Consolidated report of all project activities
- Balance Sheet
- Expenditure reported in statement of financial activities (Income Statement), classified into direct program cost and administrative support cost.

External Reports:

- Audited Financial Statements
- Annual Report

Every report which, as per terms and conditions previously agreed upon, is required to be submitted to the donor agencies should be timely and accurately prepared. It will be responsibility of the Head of Finance to brief the management about the deadlines, contents, frequency, etc. of reports that are required by the donor agencies together with the arrangement made by the organization to meet such deadlines on time.

Chapter 11

Monitring By The Board

11. MONITORING BY THE BOARD

Head of Finance will keep a close liaison with the Chief Executive in the execution of day-to-day affairs of the organization, including but not limited to satisfactory execution of various projects undertaken by the organization.

All internal and external reports generated by the Finance Department would be sent to the Board for its review, once in every 6 months. The Board shall hold deliberations and discussions over such reports and suggest modifications / amendments / rectifications. The details of business conducted during meeting of the Board shall be duly recorded and its minutes shall be circulated by the Head of Finance to the Board Members.

Chapter 12

Audit

12. AUDIT

12.1 External Audit

Financial statement of the organization and / (or) each project will be audited on annual basis.

The auditors will be appointed in annual general meeting in accordance with the respective statutory legislation. The organization will endeavor to get its financial statements audited by renowned and reputed firm of Chartered Accountants. This is expected to give more credibility to its financials and would increase its standing in the eyes of our donor agencies.

External auditors will be changed after every five years. If, for any reason this is impractical, the organization may at a minimum, request for rotating the partner in charge of its audit engagement.

Besides, the donor at its discretion may also opt to get the financials of the relevant project audited by an independent firm of Chartered Accountants. In this case, notwithstanding the external audit by the auditing firm of the organization, any project's accounts will again be subject to audit by another Chartered Accountant.

12.2 Internal Audit

There will be an Internal Audit Function in the organization. The Head of Internal Audit will preferably be a qualified accountant. He shall have access to the Chair of the Audit Committee.

The Head of Internal Audit will be assisted by a proper team who will work under his guidance and control. The team of Internal Audit Function will comprise of individuals possessing relevant experience, training and accounting qualification.

12.2.1 Scope of Work

- Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective
- Instituting special projects, value for money studies or other investigations on any matter specified by the Governing Body
- Determination of measures to safeguard assets of the organization
- Performing substantive testing of the financial transactions and account balances executed by the organization

The Internal Audit Function will issue a monthly report to the Head of Internal Audit, who would share his findings with the Audit Committee. The report(s) of Internal Audit Function will also be provided for review of external auditors.

The Internal Audit Function will also carry out a follow up exercise to check up the corrective measures taken by the management as a result of its previous reports submitted highlighting weaknesses of internal control.

12.3 Audit Committee

The Audit Committee will comprise not less than two members. The members of the Committee shall be from among the non-executive directors of the organization. All members of Audit Committee will be financially literate and at least one member shall have accounting or related financial management expertise.

The Audit Committee shall hold its meetings prior to the approval of interim results of the organization by its Board.

A meeting of the Audit Committee shall also be held, if requested by the external auditors or the Head of Internal Audit.

Terms of Reference of Audit Committee

- The Board shall determine the terms of reference of the Audit Committee. The Governing Body shall act in accordance with the recommendations of the Audit Committee in all these matters.

12.4 Reporting by the Auditors

The draft accounts initialed by the external auditors will be subject to review by the Board along with the management letter, containing internal control weaknesses, issued by the external auditors. The Board might also seek further clarification(s) from the Audit Committee over the findings reported in the management letter. After review, the Board, if thinks fit, will approve the financial statements.

It will be the management responsibility to take adequate, timely and corrective actions to address the weaknesses identified by the external auditors in their management letter.

In case the external auditors do not issue a clean (unqualified) opinion on the financial statements of the organization and (or) the projects undertaken by it, a special session of the Board shall be called which would discuss in detail the reasons, grounds and impact of such qualified opinion. The Head of Finance, Chief Executive and Members of Audit Committee will also attend the session.