

# Finance and accounting policy

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## Section 1

### Financial Policy

#### 1.1 **Financial Policy – its purpose**

A Financial Policy is a tool as well as a measure for the standards of accountability of Collective action for Basic Rights Foundation (CBRF). It enables the fulfilment of the vision of CBRF. The nobler the vision the higher the standards of accountability should be. Transparency and high standards of accountability can be infused in CBRF only if there is a sound financial policy. The financial policy of CBRF is its guiding light and if it is to be implemented and correctly translated into reality, proper systems and procedures have to be evolved and practised. This is the very core of a financial system.

A Professional set of financial policies must ensure the following:

- a. A creative, honest and sound management of resources entrusted to CBRF.
- b. Optimum utilisation of the above resources for the objectives of CBRF.
- c. Creative investments of the funds of CBRF.
- d. High accountability standards.
- e. A professional systems of reporting, monitoring and evaluation.

#### 1.2 **Areas Covered by the Policy**

The following areas are covered under this policy:

- a. Training of finance staff
- b. Finance Advisory Committee
- c. Procedures and Systems



## Section 2

### Training and Guidance

#### **2.1 Training of Finance Staff**

The finance staff should have not only education and experience but also be provided with on the job training.

This can be done through refresher and orientation courses and workshops on a continuing basis. There is a need for constant training and continuing education in finances.

This measure will improve the quality of the accounting standards and therefore will promote better financial management in CBRF.

#### **2.2 Finance Advisory Committee**

The Executive Committee of CBRF has to constitute a Finance Advisory Committee for the following purposes:

- a. To review the finances and financial policies and systems of CBRF to see whether they are adequately adhered to.
- b. To alert CBRF in regard to any lapses, delinquencies and deficiencies in standards and policies.
- c. To review the annual budget of CBRF and make such comments as may be necessary.
- d. To review the audited annual financial statement of CBRF and make essential observations.
- e. To advise CBRF on the investment policies.
- f. To review the overall finance health of CBRF.
- g. To review all other finance related matters and render advice, for example, mobilization of Corpus Fund, purchase of office premises, construction of additional floor, etc.

In view of executing this role effectively the committee shall meet periodically, at least every half year.



## Section 3

### Procedures and Systems

Procedures and systems are like the nuts and bolts of machinery which ensure its smooth running. A good system will make sure there is a clear and automatic functioning of CBRF preventing domination or manipulation by any one person or group of persons for their own personal benefit.

#### 3.1 **Planning and Budgeting**

##### a. **Need for Planning**

CBRF has a vision which must be translated into reality. The vision of CBRF is based on certain values of service to humanity and it should be a regular practice for them to go through a process of vision building and making a statement of purpose. It is wise for CBRF to plan for the future with wisdom and foresight, so that the purpose can be fulfilled in the most economical way, within the least time limit, with professionalism and quality and in accordance with the highest standards.

##### b. **Significance of Planning**

*‘One ounce of planning is like a pound of doing’* is an old maxim. The Finance of CBRF can be healthy only if the same is used for the planned activities of CBRF in view of achieving CBRF’s objectives, purpose and vision.

##### c. **Annual Budgeting – linked to activity plan**

Budgeting is considered an important tool for planning the finance of CBRF.

CBRF, in order to attain its goals and objectives, will undertake activities for the implementation of the project. Each activity plan is linked to the financial plan through a budget code and budget head of account. This linkage facilitates the preparation of a clear budget.

##### d. **Capital and Revenue Budget**

While budgeting the following aspects should be considered:



**i. Self Reliance:**

It is healthier to run CBRF in a self-reliant manner rather than to be dependent. High dependency will affect the stability of CBRF and result in dislocation of its activities. All efforts should be made to make CBRF self - sufficient through sensible budgeting processes.

**ii. Capital Assets:**

Capital expenses (non - recurring expenses), are the acquisition of new assets, vehicles, land and building and / or additions to building. These assets require substantially large resources.

Resources should be invested in capital assets only if they are required for the objects of CBRF. Capital assets will otherwise turn out to be liabilities for CBRF e.g. maintenance charges for rundown or idle building and equipment, cost of litigation arising out of encroachment of land etc.

**iii. Operating Expenses (revenue or recurring expenses):**

*Operating expenses represent the operative expenses of CBRF such as Administration, Travel, Salaries, etc.*

**iv. Difference between Capital and Operating Expenses**

While operating expenses are recurring in nature, capital expenses are non - recurring. If CBRF does not have sufficient resources to match its operating expense its financial health is questionable. Good financial procedure requires CBRF not only to raise the resources needed for its operative expenses but also to plan and accumulate the necessary resources for its capital expenses.

**e. Cash Budget**

Cash budget represents the estimated cash and bank receipts and cash and bank disbursement and the resultant balance at the end of the month or year as the case may be. This budget enables an organisation to plan its cash flow.



The Finance Department should prepare a **Cash Flow Projection Report** at least every quarter to serve the following triple purposes:

- i. to make the best investment decisions for the funds of CBRF.
- ii. to ensure that there is smooth flow of cash receipts and payments.
- iii. to avoid any cash crunch/ deficit situation.

### **3.2 Professional Accounting System**

CBRF will follow a Mercantile System of Accounting.

### **3.3 Internal Controls**

Internal controls are like checks and balance which help to keep the system in its place to avoid frauds and misappropriation or deviations from accepted policies and procedures. Periodic review of internal controls is required to maintain the vitality of the system.

The following internal controls are recommended:

#### **a. Cash Transactions**

##### **i. Segregation of cash payments into petty cash and larger payments**

Both for accounting and control purposes, it is wise to segregate payments into petty cash payments and larger payments. In the imprest system there is an inbuilt limit but even otherwise, it is advisable to fix the limit for petty cash payments. The Executive Committee of CBRF will fix this limit from time to time.

While petty cash can be entrusted to one person, large payments should go through the Executive Director.

##### **ii. Cheque payments versus cash payments**

As far as possible all payments for expenses will be made through cheque except for petty cash transactions. In any case, it is advisable to keep an upper limit for cash transactions. The Executive Committee of CBRF will fix this limit from time to time.



### iii. **Physical verification of cash**

Management should have an inbuilt system for higher authority to verify the Actual cash on hand with the balance shown in the book at least once a month and also on surprise visits, but definitely as on 30 Sep and 31 Mar each year.

To facilitate this, and in view of being transparent, all cash should be deposited into Bank as on 30 Sep and 31 Mar each year.

### iv. **Cash Receipts**

The management should ensure that the cash received by the organisation is promptly deposited in the bank the next working day. It should be acknowledged through pre-numbered receipts which are properly recorded in the cash book.

All cash has to receive by the cashier after acknowledgement by the Executive Director. The Accountant has to issue a receipt to the concerned person.

## b. **Bank Transactions**

- i. CBRF should have as few bank accounts as possible except where separate bank accounts are required by funding agencies or by law e.g. Foreign Contribution (Regulation) Act.
- ii. There should be a good system of preparation of Bank Reconciliation Statements and of monitoring the same.
- iii. Issuing bearer cheques and postdated cheques should be avoided.
- iv. Cheques for payment should be issued only when there is an adequate balance in the account since dishonouring of a cheque will attract criminal liability.
- v. All cancelled cheques should be preserved for identification and control purposes.
- vi. A cheque book register is to be maintained for all payments.



- vii. The cheque book should always be in the safe custody of a designated authority that is accountable.
- viii. Cheques and drafts received by CBRF must be acknowledged through pre-numbered receipts which are promptly deposited and properly recorded.

**c. Fixed Assets and Inventory Control**

While an inventory, (normally known as a Stock Register), records assets which are generally consumable or saleable, a Fixed Assets Register records more permanent assets which provide long term benefits to CBRF. Hence both are valuable since they represent a substantial portion of the net worth of CBRF. Both types of assets have therefore to be controlled and managed efficiently and also used effectively.

**d. Investment Control**

Other than fixed assets and stock, investments represent a substantial net worth of CBRF. These investments also often provide the income for meeting the operative and sometimes capital expenses of CBRF. Hence it is vital that investments be managed and controlled efficiently and effectively. Management should ensure that a system is set in place for the same.

**e. Donor Agency Control**

A system of control should be in place to ensure that there is no negative balance in the agency account. Funds allocated to partners should be disbursed only if there is a balance in the concerned Donor Agency account. If not, steps should be taken to obtain funds from the agency concerned before disbursing funds to the partner.

**3.4 Monitoring and Reporting Systems**

A good reporting and monitoring system ensures transparency in the accounting of CBRF.

Monitoring and Reporting are two important functions which are complementary to each other for the effective functioning of the finance department.



Monitoring function facilitates taking note of any deviation from what has been planned or budgeted and enables corrective action before it is too late.

Reporting function enables the management to obtain certain key information required to ensure that the financial system is working smoothly and is intact.

### **a. Monitoring**

Monitoring is a process by which people who are connected in various capacities to CBRF ensure that the project or activity is carried out in accordance with the planned objectives.

Planning and control are two sides of the same coin. Monitoring ensures that one side of the coin, namely control is adequately exercised.

There are various levels of monitoring depending on the relationship of the people connected to CBRF, e.g. The Board is the first level of monitoring authority being the legal body which is accountable and fully responsible for all the good deeds and misdeeds of CBRF.

Similarly the Government, both at the State and Central levels, monitors the activities of CBRF through various laws which cover CBRF, e.g. FCRA, Taxation etc.

There should be an external expert or a team of experts familiar with the finances of CBRF who will review the finances and financial policies and systems of CBRF to see whether they are adequately adhered to. The expert(s) should alert CBRF in regard to any lapses, delinquencies and deficiencies in standards and policies.

### **b. Reporting**

Reporting is a process through which CBRF presents a reflection of its current status, especially the financial situation. Reporting is important because it enables not only those in authority but also the public at large to know whether or not activities which had been planned have been carried out, whether there have been any deviations and whether there are high standards of efficiency and accountability or not.



There are several ways of reporting depending on the different types of organizations and the sort of information they need. The following are some of the ways of reporting by CBRF:

1. Reporting to the General Body / Governing Body / Executive Committee.
2. Reporting to the Executive Director of CBRF.
3. Reporting to the Government of India.
4. Reporting to the Funding Agencies.
5. Reporting to the public at large e.g. by publishing an Annual report.

Listed below are the types of reports to be prepared by CBRF:

**i. Audited Financial Statement**

CBRF should ensure that its accounts are audited at least once a year. This Audited Financial Statement has to be tabled at the General Body Meeting before being submitted to statutory authorities as per norms applicable from time to time.

**ii. Budget Comparison Report (including comments on key financial ratios):**

Unless a plan is reviewed regularly any deviation from it cannot be rectified in a timely manner. A budget is a financial plan and hence it needs to be compared with the actual financial statement periodically (monthly, quarterly, half yearly or annually) when any deviation should be identified. After analysis, if any deviation is noted, corrective measures must be taken immediately. A Budget Comparison Report is a tool to assist in the above process. CBRF should prepare the same periodically for study and necessary follow up action by the Executive Director, General Body, Governing Body and Executive Committee.

**iii. Legal Compliance Status Report**

This is a report that informs the Board whether CBRF has complied with the necessary laws e.g. filing the Income Tax Returns, reporting to the ministry of Home Affairs under FCRA, reporting to the Registrar of Societies etc.

If there is any action against CBRF by the Government it should be reported to the Board. Information should not be purposely



concealed from them. If there is any violation of the law then it will have serious implications and will cause immense damage to CBRF.

**iv. Investment Status Report**

CBRF may be making different types of investments. Funds must be invested in a creative manner and then be measured in terms of capital appreciation, safety, liquidity and rate of return thereby improving the resources of CBRF effectively and efficiently. Investments may be made only as per norms approved by the Governing Body.

**v. Donor Agency Status Report**

Various donor agencies prescribe different types of reports. It is for the Board to ensure that the reports prescribed by the donor agencies are complied with.

Quarterly monitoring is advisable in order to ensure a regular review of the activities of CBRF. It enables CBRF to take the necessary corrective action for any deviation from the actual plan. It will be too late to take any corrective action at the end of the fiscal year.

This report is also meant to reflect the balance of funds in each agency account along with the current receipts from the agency and the disbursements out of the agency's funds.

**vi. Project Status Report**

CBRF often implements many projects simultaneously through NGO Partners. Therefore it is important for the Chief Functionary as well as Board to understand the status of the stage of completion of each project. This report therefore gives clear details about each project at any particular point of time.

Tracking of agency balance due / own contribution due must be carried out through a proper system. Further a report on administrative expenditure in each project or programme shall be submitted.

**vii. Management letter from statutory Auditors**



The statutory auditors shall provide a management letter with advice and recommendation for improving the financial practices of the organization. The Board of CBRF shall ensure that the recommendations are discussed and a specific time plan be drawn for implementation.

A recommendation closure document shall also be prepared as to number of recommendations implemented which is also intimated to the statutory auditors and the external expert(s).

#### **viii. Expenses Tracking Report for Income Tax Purposes**

Often organization violate the Tax Laws by not spending the required amount of income of a fiscal year. Under the present Income Tax Act, CBRF has to spend 85% of its income during the year towards its various objectives. CBRF can take recourse to other possibilities of obtaining exemptions as per what is permitted in the Income Tax Act. However, it is to track the above information on a monthly basis so that towards the end of the financial year CBRF does not face a situation of non-compliance of the Tax Laws.

### **3.5 Investment of funds**

#### **a. The purpose of Investment**

CBRF deals with funds received for carrying out various objectives and goals. It receives funds for various purposes:

- i. for operating expenses
- ii. for specific or designated purposes e.g. community based rehabilitation of persons with disabilities, revolving funds for income generation programmes.
- iii. Corpus funds.

One of the important ways of improving the resources in CBRF is by making prudent and creative investments. Often large funds are blocked in low yielding, non - capital appreciating investments. If they are channelised to high yielding, capital appreciating investments, the funds of CBRF will be



augmented. Often prudent and creative investments contribute to the augmenting of internal resources.

### **b. Planning for investment**

It is important that CBRF has a good investment plan in order to ensure that the funds are invested in the most effective and efficient investment options.

For this purpose CBRF should draw an investment plan based on the following factors:

- i. Nature of funds available for investment in short term deposits and long term deposits.
- ii. Time plan for implementation of the projects for which funds are received.
- iii. The type of cash flow required in CBRF.

CBRF has :

- i. to ensure conformity and stability by developing a healthy economy.
- ii. to avoid financial crisis.
- iii. to avoid high dependency and insecurity.

CBRF is to identify all idle and surplus funds and make efficient investments which are within the legal framework of the laws applicable to Charitable Societies in India as well as ethically in conformity with the values it stands for. Every such investment should be made without causing any delay in disbursements of funds to Projects and Programmes implemented by CBRF as well as its partners.

### **c. Types of Investments**

Funds of CBRF should be invested in accordance with the provisions of section 11(5) of the income Tax Act, 1961 in the following manner:

- i. Investment in savings certificates or any other securities issued by the Central Government.
- ii. Deposits in any account with the Post Office, scheduled Banks.
- iii. Deposits in any account with a scheduled bank or a co-operative society engaged in Banking.
- iv. Investments in the Unit Trust of India.
- v. Investments for money in any security created and issued by the Central Government or State Government.
- vi. Investments in any debentures issued by a company or corporation where both the principal thereof and the interest thereon are fully and



unconditionally guaranteed by the Central Government or by State Government.

- vii.** Investment in any Public Sector company.
- viii.** Deposits in any Bonds issued by a financial corporation engaged in providing long term finance for industrial development in India.
- ix.** Deposit with the Industrial Development Bank of India.
- x.** Any Transfer of deposits to the Public Account of India.



CBRF has two types of funds for making investments:

### **i. Corpus Funds**

Any Corpus donation has to be attached with a Corpus / Donor letter.

These funds are not meant for ordinary expenses or disbursements to projects. On the other hand they are solely to be invested and the income therefrom to be used for meeting the administrative expenses.

It is, therefore, important that these funds are invested in the most judicious manner possibly in long term investments.

### **ii. Other Funds**

These funds consist of both foreign contribution and local funds, meant for project disbursements and for meeting the administrative expenses. However, at every point of time, there will be a certain amount of ordinary funds available with CBRF which can be again invested in a judicious manner in order to ensure that the best returns are earned on the funds and that they are not kept idle.

However, it may be difficult to have the best of all the above parameters in any investment, for example, the option which earns the highest returns may not have the highest capital appreciation possibly. Therefore, with regard to funds, both short term and long term, the investment decision has to be made in a judicious manner.

